



**VEOLIA WATER
PENNSYLVANIA INC.**

MANAGEMENT AND OPERATIONS AUDIT

**Pennsylvania Public Utility Commission
Bureau of Audits
Issued December 2024**

Docket No. D-2024-3045217

VEOLIA WATER PENNSYLVANIA INC.

MANAGEMENT AND OPERATIONS AUDIT

**Pennsylvania Public Utility Commission
Bureau of Audits
Issued December 2024**

Docket No. D-2024-3045217

**VEOLIA WATER PENNSYLVANIA INC.
MANAGEMENT AND OPERATIONS AUDIT**

TABLE OF CONTENTS

<u>Chapter</u>	<u>Page</u>
I. INTRODUCTION	1
A. Objectives and Scope	1
B. Audit Approach	2
C. Functional Area Ratings	3
D. Benefits	4
E. Recommendation Summary	5
II. BACKGROUND	8
III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE	12
IV. CORPORATE GOVERNANCE	17
V. COST ALLOCATIONS AND AFFILIATED INTERESTS	20
VI. FINANCIAL MANAGEMENT	24
VII. WATER OPERATIONS	31
VIII. EMERGENCY PREPAREDNESS	46
IX. PURCHASING AND MATERIALS MANAGEMENT	50
X. CUSTOMER SERVICE	54
XI. HUMAN RESOURCES AND DIVERSITY	58
XII. ACKNOWLEDGEMENTS	61
XIII. APPENDICES	62

**VEOLIA WATER PENNSYLVANIA INC.
MANAGEMENT AND OPERATIONS AUDIT**

LIST OF EXHIBITS

<u>Exhibit</u>	<u>Page</u>
I-1 Functional Rating Summary	4
I-2 Quantifiable Savings Summary	4
I-3 Summary of Recommendations	6
II-1 Veolia Environnement S.A. - Abbreviated Corporate Entity Organizational Chart	9
II-2 Customer Statistics	11
III-1 Executive Management Organization Chart	12
III-2 Staffing Levels	13
V-1 Abbreviated Legal Entity Structure of Affiliated Relationships	20
V-2 Summary of Charges from VWPA to Affiliates	21
V-3 Summary of Charges from Affiliates to VWPA	22
VI-1 Financial Management Organization Chart	24
VI-2 Water Division Budget to Actual Operating and Maintenance Expenses	26
VI-3 Wastewater Division Budget to Actual Operating and Maintenance Expenses	26
VI-4 Bethel Division Budget to Actual Operating and Maintenance Expenses	27
VI-5 Water Division Budget to Actual Capital Expenditures	28
VI-6 Veolia Utility Resources LLC – Capital Structure Summary	29
VI-7 VWPA and Veolia Water Bethel Inc. – Summary of Dividends Paid to Veolia Utility Resources LLC	29
VI-8 Veolia Utility Resources LLC – Defined Benefit Plan & Post Retirement Benefits Other than Pensions Funding Status	30

**VEOLIA WATER PENNSYLVANIA INC.
MANAGEMENT AND OPERATIONS AUDIT**

LIST OF EXHIBITS (CONTINUED)

<u>Exhibit</u>		<u>Page</u>
VII-1	Service Region Characteristics	31
VII-2	Water Operations Department Organization Chart	32
VII-3	Operational Technology Department Organization Chart	33
VII-4	Annual Main Replacement Efforts	34
VII-5	Annual Main and Service Breaks	35
VII-6	Locate Ticket Data	38
VII-7	Annual Backflow Prevention Device Testing	41
VII-8	Annual Average UFW and NRW Levels	43
VII-9	Unaccounted for Water Comparison	44
VIII-1	Public Utility Security Planning and Readiness Self Certification Form	46
VIII-2	Company Security Delegation by Department	47
IX-1	Inventory Turnover	51
IX-2	Inactive Inventory	52
X-1	Customer Service Department Organization Chart	54
X-2	Call Handling Metrics	55
XI-1	Safety Performance vs. BLS Rates	59

I. INTRODUCTION

Pennsylvania law grants the Pennsylvania Public Utility Commission (PUC or Commission) the general administrative power and authority to supervise and regulate public utilities within the Commonwealth of Pennsylvania per 66 Pa. C.S. § 501(b). Management and operational audits are required of certain Pennsylvania-based utility companies pursuant to 66 Pa. C.S. § 516(a). Specifically, the Commission can investigate and examine the condition and management of any public utility, 66 Pa. C.S. § 331(a).

In accordance with the PUC's ongoing program to identify improvements in the management and operations of fixed utilities under its jurisdiction, it was determined that a management and operations audit should be conducted of Veolia Water Pennsylvania Inc. (VWPA or company).

This report summarizes the PUC Management Audit Division's audit work and outlines its conclusions. The findings presented in the report identify areas where weaknesses or deficiencies exist. In all cases, recommendations are offered to improve, correct, or eliminate these conditions. The final, and most important step, in the management audit process is to initiate actions toward implementation of the recommendations.

A. **Objectives and Scope**

The objectives of this management and operations audit were:

- To provide the Commission, VWPA, and the public with an assessment of the efficiency and effectiveness of the company's operations, management methods, organization, practices, and procedures
- To identify opportunities for improvement and develop recommendations to address those opportunities
- To provide an informed basis for future regulatory and other inquiries into the management and operations of VWPA

The scope of this audit was limited to certain areas of the company as explained in Section B, Audit Approach.

B. Audit Approach

The management and operations audit was performed by the Management Audit Division of the PUC's Bureau of Audits (PUC auditors or audit staff). The audit process began with a pre-fieldwork analysis as outlined below:

- A five-year internal trend (2019-2023) and ratio analysis was completed using financial and operational data obtained from the company, Commission, and other available sources.
- Input was solicited from PUC bureaus and offices, external parties, and VWPA regarding concerns or issues they would like addressed during our review.
- Prior management and operations audits, follow-up management efficiency investigations, implementation plans, implementation plan progress reports, other Commission-conducted audits, annual diversity reports, and other available documents were reviewed.

This information was used to determine the scope of the management audit. Specifically, the following functional areas were selected for in-depth analysis and are included in this report:

- Executive Management and Organizational Structure
- Corporate Governance
- Financial Management
- Cost Allocations and Affiliated Interests
- Water Operations
- Emergency Preparedness
- Purchasing and Materials Management
- Customer Service
- Human Resources and Diversity

The pre-fieldwork analysis should not be construed as a comprehensive evaluation of the management or operations in the functional areas not selected for in-depth examination. If we conducted a thorough review of those areas, additional weaknesses or deficiencies may have come to our attention.

Fieldwork began on April 16, 2024, and continued through August 13, 2024. The principal components of the fact gathering process included:

- Interviews with company personnel as well as other Commission Bureaus
- Analysis of records, documents, and reports of a financial and operational nature focused primarily on the period 2019-2023
- Visits to select company facilities with observations and walk-throughs of work practices

C. Functional Area Ratings

For the functional areas selected for in-depth examination, the PUC auditors rated the area relative to the expected performance level at the time of the audit. This expected performance level is the state at which each functional area should be operating given the company's resources and general operating environment. Expected performance is not a "cutting edge" operating condition; rather, it is management of a functional area such that it produces reasonably expected operating results.

Listed below are the evaluative categories used to rate each functional area's operating or performance level:

- Meets Expected Performance Level
- Minor Improvement Necessary
- Moderate Improvement Necessary
- Significant Improvement Necessary
- Major Improvement Necessary

Our ratings for each reviewed functional area can be found in Exhibit I-1 on the next page.

Exhibit I-1
Veolia Water Pennsylvania Inc.
Management and Operations Audit
Functional Rating Summary

Functional Area	Meets Expected Performance Level	Minor Improvement Necessary	Moderate Improvement Necessary	Significant Improvement Necessary	Major Improvement Necessary
Executive Management and Organizational Structure		X			
Corporate Governance		X			
Cost Allocations and Affiliated Interests	X				
Financial Management	X				
Water Operations			X		
Emergency Preparedness			X		
Purchasing and Materials Management		X			
Customer Service			X		
Human Resources and Diversity		X			

D. Benefits

Where possible, the audit staff estimated the potential savings anticipated from implementing the recommendations made in this report. The audit report details potential annual cost savings of approximately \$68,000. We tried to identify, whenever practical, the potential savings through recommendation implementation. Some of these savings could be an actual reduction in costs, avoided costs or increased revenues, whereas others would result in better deployment and/or use of existing resources. These quantifications require some judgment and may require effort beyond the scope of the audit for further refinement. Therefore, the actual benefits from effective implementation of the recommendations are uncertain and could differ from the estimate. An overall summary of the annual and/or one-time costs savings quantified in the audit report are shown in Exhibit I-2.

Exhibit I-2
Veolia Water Pennsylvania Inc.
Management and Operations Audit
Quantifiable Savings Summary

Recommendation	Annual Savings	One-Time Savings
Continue to reduce UFW and report UFW correctly.	\$68,000	-

For most recommendations, it was impractical to estimate quantitative benefits as the benefits are of a qualitative nature, or insufficient data was available to quantify the impact. For example, it is difficult to estimate the actual benefit where new management practices or procedures are recommended where such did not previously exist or were not fully functional. Similarly, changes in workflow or implementation of good business practices could result in improved effectiveness and efficiency of a function but cannot be easily quantified.

The company will have options to implement the recommendations and, as a result, the PUC auditors have not estimated the cost of implementation for recommendations where no savings were quantified. However, it should be noted that the cost of implementing some recommendations could be significant.

E. Recommendation Summary

Chapters III through XI provide findings, conclusions, and recommendations for each functional area reviewed in-depth during this audit. Exhibit I-3 summarizes the recommendations with the following priority assessments for implementation:

- **INITIATION TIME FRAME** – Estimated time frame on how quickly the company should be able to initiate its implementation efforts given the company's resources and general operating environment. The time necessary to complete implementation is expected to vary depending on the nature of the recommendation and the scope of the effort necessary and resources available to effectively implement the recommendation.
- **BENEFITS** – Net quantifiable benefits have been provided where they could be estimated as discussed in Section D - Benefits. Our overall rankings are not solely based on quantifiable dollars but rather our assessment of the potential overall impact of the recommendation on the efficiency and/or effectiveness of the company and/or the services it provides.
 - **HIGH BENEFITS** – Implementation of the recommendation would result in major service improvements, substantial improvements in management practices and performance, and/or significant cost savings.
 - **MEDIUM BENEFITS** – Implementation of the recommendation would result in important service improvements, meaningful improvements in management practices and performance, and/or meaningful cost savings.
 - **LOW BENEFITS** – Implementation of the recommendation is likely to result in service improvements, management practices and performances, and/or enhance cost controls.

**Veolia Water Pennsylvania Inc.
Management and Operations Audit
Summary of Recommendations**

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
Chapter III – Executive Management and Organizational Structure				
III-1	Document the strategic planning process, including alignment of corporate goals and initiatives.	14	3-6 Months	Medium
III-2	Document key procedures and establish a process to periodically review and update VWPA's existing policies, procedures, tariff, etc.	15	3-6 Months	Medium
Chapter IV – Corporate Governance				
IV-1	Perform periodic operational audits at the operating company level and perform audits of corporate cost allocation processes at least every three years.	19	6-12 Months	High
Chapter V – Cost Allocations and Affiliated Interests				
None				
Chapter VI – Financial Management				
None				
Chapter VII – Water Operations				
VII-1	Establish and create a company-wide damage prevention program that includes a damage prevention manual and a system for tracking hits and damage amounts.	37	0-3 Months	High
VII-2	Develop standard operating procedures where appropriate and create a process to update policies and procedures on a recurring basis.	39	3-6 Months	Low
VII-3	Increase backflow prevention device testing to 80% annually to ensure facility compliance with the company's tariff and adhere to the company's cross connection control program.	39	6-12 Months	High
VII-4	Reduce UFW below the 20% threshold and report UFW correctly.	41	6-12 Months	Medium
Chapter VIII – Emergency Preparedness				
VIII-1	Correct minor deficiencies in physical security.	48	0-3 Months	High
VIII-2	Conduct periodic penetration testing at company facilities and work with VWM&S to create formal standards for its physical security plan.	48	0-6 Months	High
VIII-3	Develop and maintain a cybersecurity maturity model for VWPA and implement other cybersecurity improvements.	49	6-12 Months	High

**Veolia Water Pennsylvania Inc.
Management and Operations Audit
Summary of Recommendations**

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
Chapter IX – Purchasing and Materials Management				
IX-1	Reduce or eliminate manual activities used in current materials management processes.	51	6-12 Months	High
IX-2	Develop and document a process to periodically review inactive materials for obsolescence at least every three years.	52	0-6 Months	Medium
Chapter X – Customer Service				
X-1	Implement routine customer satisfaction surveys to ensure customer expectations are met and to identify opportunities for improvement.	56	0-6 Months	High
X-2	Execute formal contracts for all municipal agreements concerning the sharing of customer usage data, and all services performed on behalf of the municipality, including consumption reporting and termination services and file with the PUC per 66 Pa. C.S. § 507.	56	0-3 Months	Low
Chapter XI – Human Resources and Diversity				
XI-1	Streamline the annual compensation adjustment process by transitioning VWPA to a common payroll platform.	60	6-12 Months	Medium

II. BACKGROUND

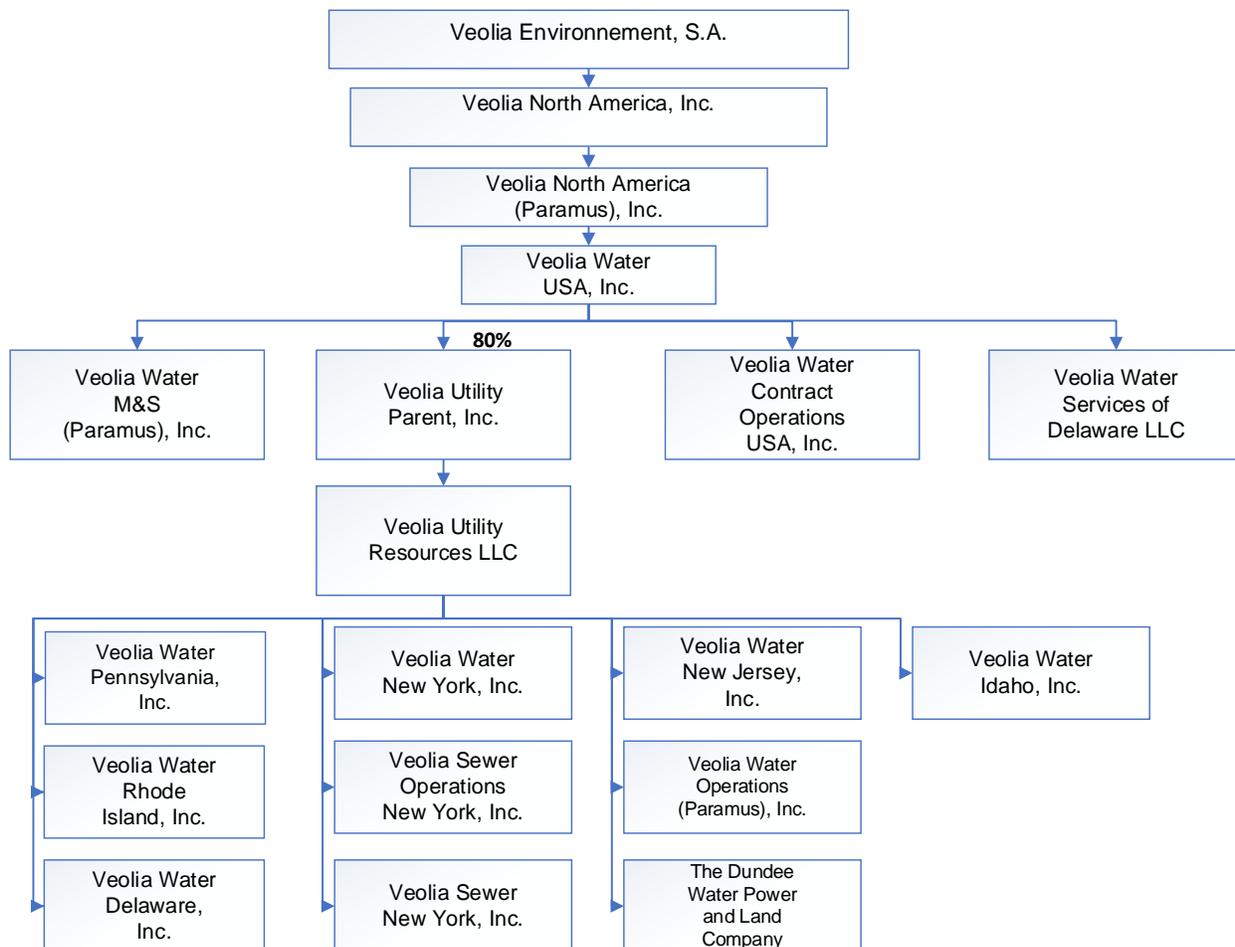
Veolia Water Pennsylvania Inc. (VWPA or company) is a regulated public utility headquartered in Harrisburg, Pennsylvania. On June 28, 2023, VWPA filed a Statement of Merger with the Pennsylvania Department of State and merged with an affiliated Pennsylvania regulated water utility, Veolia Water Bethel¹. Thus, as the surviving entity, VWPA functions as the sole company for all Veolia-owned regulated water distribution facilities in Pennsylvania. As of April 2024, VWPA employed 108 staff members with expertise in varied areas of water utility operations including engineering, water quality, treatment plant operation and maintenance, field services, customer service, etc.

VWPA is ultimately a subsidiary of Veolia Environnement S.A. (Veolia Group). Veolia Group is an international holding company with worldwide business operations that encompass water, waste, and energy activities. Organizationally, VWPA is a wholly owned subsidiary of Veolia Utility Resources LLC, a wholly owned subsidiary of Veolia Utility Parent, Inc. (VUPI). VUPI is the holding company of the regulated water utility business unit. VUPI's majority² shareholder is Veolia Water USA, Inc., a wholly owned subsidiary of Veolia North America (Paramus), Inc., which is a wholly owned subsidiary to Veolia North America, Inc. (VNA). VNA a direct subsidiary of Veolia Group. Veolia Group's abbreviated legal organizational structure summarizing its ownership of VWPA is shown in Exhibit II-1.

¹ The Commission approved the merger in July 2023 at Docket No. A-2022-3035967. VWPA's water operations are provided to the Bethel service region of VWPA via its affiliate, Veolia Water Delaware, Inc.

² VUPI's ownership is shared 80/20 between VNA and Stitching Depository PGGM Infrastructure Funds (PGGM).

**Exhibit II-1
Veolia Environnement SA (Veolia Group)
Abbreviated Corporate Entity Organizational Chart
As of April 2024**



Source: Data Requests CA-1 and CG-11

VUPI is the direct parent of Veolia Utility Resources LLC (VUR). VUR acts as the holding company for all VNA regulated utility subsidiaries (Regulated Segment). Staffing within the Regulated Segment is organized under a matrix structure, with certain Regulated Segment subsidiaries assigned to a division. For example, the Regulated Segment’s Mid-Atlantic Division includes both VWPA and Veolia Water Delaware, Inc. As part of the Mid-Atlantic Division, VWPA is staffed by a combination of VWPA employees and Mid-Atlantic Division employees, see Chapter III-Executive Management and Organizational Structure for additional details about VWPA’s matrix reporting structure. During the audit period, significant events for VWPA, its affiliates, and its parent companies occurred, including:

- On March 1, 2019, VUPI (formerly SUEZ Utility Holdings, Inc.), entered into a shareholder agreement with Stitching Depository PGGM Infrastructure Funds,

splitting ownership of VUPI. VUPI is the parent company of Veolia Utility Resources LLC (formerly, SUEZ Utility Resources LLC), which is the parent company of VWPA.

- Previously, VWPA, its affiliates, and parent companies were ultimately owned by SUEZ S.A. However, in March 2022, SUEZ S.A. completed a merger with Veolia Group, and Veolia Group became the surviving entity. Prior to the merger, in December 2021, Veolia Group filed a joint application for Commission approval for the transfer of control from SUEZ to Veolia Group, see Docket No.: A-2021-3026515, A-2021-3026522, and A-2021-3026523. Several stipulations resulted from the merger, including but not limited to:
 - For at least three years post-merger, no material changes to the management, employees, employee compensation and benefits, property, plant, equipment, or other contract rights and obligations of the PA regulated utilities
 - Continuance of capital plan, including potential improvements to customer service, continued access to financial markets, continued and enhanced community engagement
 - Proceed with planned capital investments and improvements to the PUC approved Long Term Infrastructure Improvement Plan (LTIIP)
 - Further development of technological solutions for safe and sufficient supplies of water
 - No transaction or transition costs associated with the merger will be requested in the recovery of rates from PA regulated utilities
- Subsequently VWPA, its affiliates, and parent companies filed for legal change of names to reflect the change in ownership.

VWPA served approximately 68,000 customers in 11 Pennsylvania counties in 2023. Exhibit II-2 provides a summary of VWPA's customer statistics.

Exhibit II-2
Veolia Water Pennsylvania, Inc.
Customer Statistics
For the Year Ended December 31, 2023

Customer Class	No. of Customers	Percent of Total Customers	Gallons Sold (1,000)	Percent of Gallons Sold	Revenues	Percent of Revenues
Residential	62,100	90.68%	2,618,538	54.01%	\$ 33,482,401	62.82%
Commercial	5,108	7.46%	1,572,357	32.43%	\$ 14,054,363	26.37%
Industrial	53	0.08%	203,428	4.20%	\$ 1,286,528	2.41%
Other ^	225	1.78%	453,812	9.36%	\$ 4,474,722	8.40%
Totals	68,482	100.00%	4,848,135	100.00%	\$ 53,298,015	100.00%

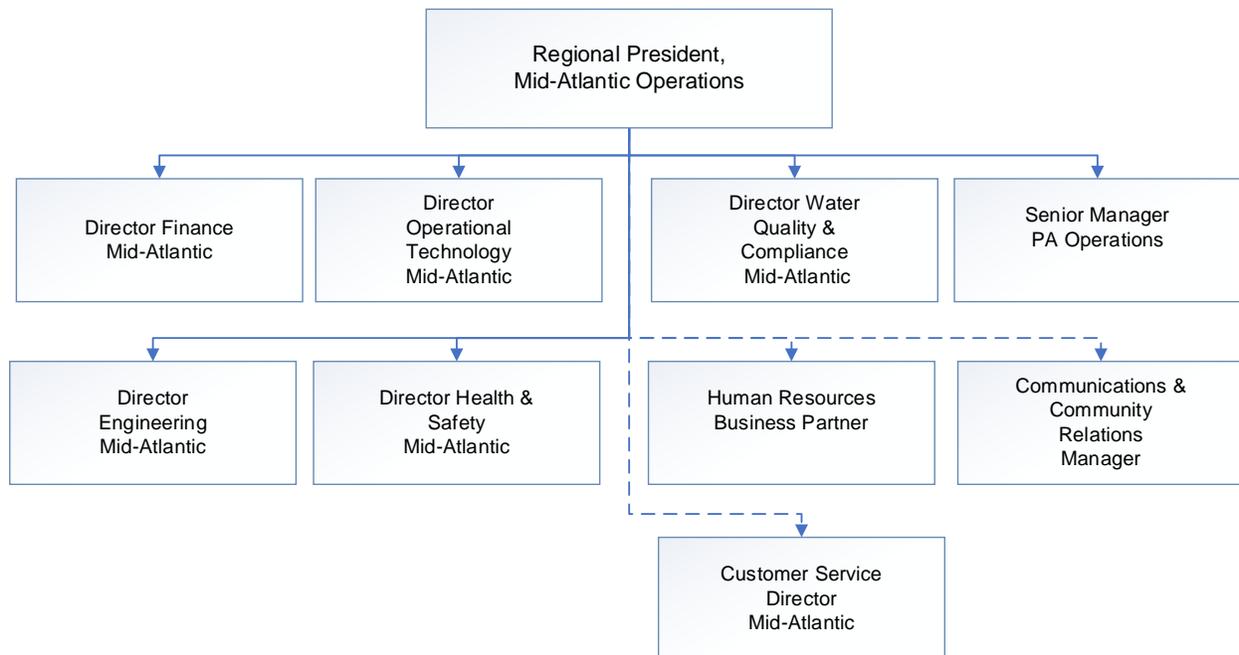
^ Other includes sales for resale, public, and fire protection customers
Source: 2023 Veolia Water Pennsylvania, Inc. PUC Annual Report

III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Background

Veolia Water Pennsylvania, Inc. (VWPA or company) is led by its Regional President, Mid-Atlantic Operations (RP, Mid-Atlantic). As a Mid-Atlantic employee, the RP, Mid-Atlantic oversees the daily operations of both VWPA and its affiliate, Veolia Water Delaware, Inc. (VWDE). As noted in Exhibit III-1, VWPA’s executive organization is composed of numerous employees with Mid-Atlantic roles who have dual responsibilities to VWPA and VWDE. Also included in the matrix structure are three employees who directly report to VWPA’s affiliate, Veolia Water Management and Services Corporation (VWM&S) and report indirectly to the RP, Mid-Atlantic.

Exhibit III-1
Veolia Water Pennsylvania, Inc.
Executive Management Organization Chart
As of July 2024



Note: Dotted lines represent indirect reporting relationships.
 Source: Data Request EM-1 and Company Provided Data

VWM&S is the shared services company for all subsidiaries of Veolia North America Inc. (VNA), including VWPA. The RP, Mid-Atlantic receives indirect reporting on VWM&S HR, Communications, and Customer Service activities as shown by the dotted line in Exhibit III-1. VWM&S shared services are centralized to streamline common functions and resources for the benefit of multiple VNA affiliates, including VWPA. Such services include treasury, accounting, corporate communications, legal,

corporate procurement, etc. and are discussed in more detail in Chapter V-Cost Allocations and Affiliated Interests.

VWPA’s overall staffing levels between 2019 and 2024 reflected a slight increase. Exhibit III-2 shows VWPA’s total staffing during the audit period.

Exhibit III-2
Veolia Water Pennsylvania, Inc.
Staffing Levels
For the Years 2019 – 2023 and through April 2024

	2019	2020	2021	2022	2023	2024
Total Employees	96	95	96	102	107	108

Source: Data Request EM-2

VWPA’s succession planning process for its executive organization focuses on developing candidates for leadership positions. This includes identifying potential candidates, their long- and short-term goals, and providing opportunities for career development. Succession planning is supported by VWPA’s comprehensive talent review and skill development activities. VWPA’s talent review process extends organization-wide and is conducted for every layer of management to all staff members. See Chapter XI-Human Resources and Diversity for more information on non-executive staff.

VWPA’s strategic planning documents include its medium-term plan (MTP) and its Long-Term infrastructure Improvement Plan (LTIIP). The MTP covers a five-year planning cycle that provides a foundation for the detailed annual budget for the upcoming year and a four-year forecast. See Chapter VI-Financial Management for additional details on VWPA’s annual budget process. The MTP forecasted amounts reflect the company’s strategy for upcoming rate cases, acquisitions, etc. The annual budget includes both operating and capital plans, where the capital plan includes a detailed list of approved capital projects (see Chapter VII-Water Operations for additional information related to capital projects). VWPA’s approved capital projects align with its PUC-approved LTIIP. The LTIIP details the company’s replacement of aging infrastructure to ensure reliability.

VWPA’s 2024 annual goals are focused on four primary areas: operational efficiency, growth, customer experience, and employees. For operational efficiency, VWPA wants to identify opportunities that achieve productivity improvements but also are sustainable. One such example is VWPA’s endeavor to standardize its operating procedures, see Chapter VII-Water Operations for more details. Meanwhile, VWPA’s efforts in growth include strategic planning for rate cases and tuck-in³ acquisitions.

³ VWPA attempts to identify acquisitions that are geographically close to existing VWPA service territory where the company could leverage existing resources to “tuck-in” the acquisition.

Customer experience goals are focused on customer satisfaction performance, including technology enhancements, and focus on customer experience. Finally, employee goals are focused on proactive career development and training opportunities.

In addition, VWPA's annual incentive program performance measures include environmental, health, and safety (EHS) activities and training. EHS activities include e-learning, meeting attendance, and submission of leading indicators. Leading indicators include notification of unsafe conditions, near miss occurrences, etc. and are shared organization-wide to help drive best practices and safety culture. More information regarding VWPA's EHS activities, training, and safety performance are discussed in Chapter XI-Human Resources and Diversity.

Findings and Conclusions

Our examination of VWPA's executive management and its organizational structure included a review of the overall objectives of the company and the effectiveness of its present organizational structure to support these objectives, the company's ongoing strategic and operational planning process, and the company's succession planning process. Based on our review, VWPA should initiate or devote additional effort to improving the efficiency and/or effectiveness of its Executive Management and Organizational Structure function by addressing the following:

- **Finding III-1: VWPA has not documented its strategic planning process.**
- **Finding III-2: Some key activities are undocumented and numerous VWPA policies, procedures, supporting files, etc. are outdated.**

Discussion

Finding III-1: VWPA has not documented its strategic planning process.

As discussed in this chapter's background, VWPA relies upon its five-year MTP and approved LTIIP as a foundation to develop its annual capital budget and support its annual operating budget as part of its strategic planning process. VWPA's strategic planning also includes the alignment of annual priorities and goals with the corporate vision to drive operating efficiencies, customer experience, growth, and focus on employees. However, VWPA's specific role and responsibilities supporting the strategic planning process is undocumented. Therefore, the PUC auditors contend that VWPA is missing an opportunity to communicate and document the process for aligning corporate goals, metrics, business plans, long term infrastructure improvement plan, etc. with its overall strategic vision more effectively.

Best practices for strategic planning documents include:

- A planning process with clearly defined objectives and metrics aligned with the company's overall vision and mission;
- Business goals and a metrics tracking process measuring the achievement of the company's objectives;
- Specific strategies or plans for the operating companies feeding up to the plan; and,
- Documentation of analyses performed to support the strategic plan of the utility.

Formal documentation provides clear guidance to employees and helps ensure that key processes are functioning as intended by management.

Recommendation III-1: Document the strategic planning process, including alignment of corporate goals and initiatives.

Finding III-2: Some key activities are undocumented and numerous VWPA policies, procedures, supporting files, etc. are outdated.

During fieldwork, the PUC auditors identified several key processes that lacked adequate documentation. For example, the strategic management process discussed in Finding III-1 is supported by VWPA's annual budget process. However, VWPA does not maintain a written annual budget process or procedure. Due to volatility in revenues, expenses, and other circumstances, VWPA traditionally relies upon its long-tenured, experienced staff to fulfill some critical functions without formal documentation of those processes. VWPA's annual budget process documentation includes spreadsheets to guide and complete the various revenue and expense components, which in some cases continued to reflect outdated company names.

As mentioned in Chapter II-Background, in January 2022, the merger between SUEZ Environment S.A. and Veolia Environnement S.A. (Veolia Group) was completed, where Veolia Group became the successor entity. In March 2022, Veolia Group obtained clearance with the UK's Competition and Markets Authority to proceed with the merger, resulting in SUEZ North America and VNA's merger, where VNA became the successor entity. Subsequently, Suez Water Pennsylvania, Inc. filed an Articles of Incorporation – Articles of Amendment changing its name to VWPA on March 28, 2022. However, due to the recent merger, the company has not completed all updates to its existing documentation to reflect the resulting name change. The PUC auditors noted several outdated documents, including:

- Tariff pages: 6C, 17, 29-30, and 33-35
- VWPA's PUC-approved affiliated interest agreements (see Chapter V-Cost Allocations and Affiliated Interests)
- Veolia Water Management & Services, Inc.'s cost allocation manual
- Procedures, job aids, walk-throughs, and spreadsheets

Formal documentation provides foundational guidance for staff, promotes consistency in the performance of operations, and reduces errors. Best practices include periodic review of all documentation to ensure content is up to date to avoid confusion. Outdated policies and procedures could create inconsistencies in audits, loss of information, etc. Without well-documented processes for foundational tasks, VWPA is at increased risk for inconsistency and errors and should document and update outdated documentation as soon as practical.

Recommendation III-2: Document key procedures and establish a process to periodically review and update VWPA's existing policies, procedures, tariff, etc.

IV. CORPORATE GOVERNANCE

Background

As discussed in Chapter II-Background, Veolia Water Pennsylvania, Inc. (VWPA) is, ultimately, a subsidiary of Veolia Environnement S.A. (Veolia Group). Veolia Group is a global corporation based in France and is actively traded on the Paris Stock Exchange in accordance with the French Financial Authority (AMF) general regulations, which include the French Monetary and Financial Code. Veolia Group is not traded on the NYSE or NASDAQ nor subject to SOX. However, AMF general regulations are based on the International Financial Reporting Standards, which mandate similar protocols to SOX for independence, internal controls, and oversight of external audits.

As of December 31, 2023, Veolia Group's board of directors (Board) was composed of 14 directors and one censeur (non-voting) member. Two of the directors represent the employees and one director represents employee shareholders, with the remaining directors elected by shareholders at the recommendation of the Board. As of December 31, 2023, 82% of the elected directors were independent. Conversely, Veolia Group's wholly owned subsidiary, Veolia North America, Inc. (VNA) has a Board that is composed entirely of dependent directors. VNA's Board members include VNA's President and CEO, CFO, and Chief Impact Officer. VNA's board functions without any committees.

As depicted in Chapter II-Background's Exhibit II-1, Veolia Utility Parent, Inc. (VUPI) is the parent company of the VWPA's parent company, Veolia Utility Resources LLC. VUPI's ownership is split between VNA's subsidiary, Veolia Water USA, Inc. and its minority shareholder, Stitching Depository PGGM Infrastructure Funds (PGGM), with 80% of VUPI shares held by Veolia Water USA, Inc. Similarly, per a shareholder agreement with PGGM, the Board composition of VUPI is divided between employees of VNA and PGGM, with up to four board members from VNA and one board member from PGGM. At the time of fieldwork, VUPI's board was composed of four directors: the VNA CFO, the VNA Chief Impact Officer, the CEO of VNA's Municipal Water, and PGGM's Investment Director.

The mixed ownership of the VUPI board provides additional insight from the external investor for VNA's regulated utility operations. The VUPI board meets quarterly and routinely reviews quarterly financials, general business updates, staffing, emerging subject matter (i.e., PFAs compliance), etc. The VUPI Board is also responsible for the approval of dividends, debt issuance, etc. In addition, the VUPI Board is responsible for the selection, approval, and review of an external auditor for its consolidated financial statements. The external auditor presents its audit plan and upon completion, the results of the audit to the full VUPI Board.

Meanwhile, the Veolia Group, through its Audit Committee, has ultimate responsibility for the enterprise-wide internal audit (IA) function. The IA function performs five assignment types, including: review of internal control processes, review of the control of growth and performance, review of the control of other major risks,

specific assignments (occasional projects focused on particular risk), and consulting services. The IA function is centralized at the Veolia Group level and is led by Chief Audit Executive (CAE). The CAE reports directly to the chair of the Audit Committee and oversees the IA function via four Deputies who are responsible for Veolia Group's subsidiaries IA function by region. The four regional Deputies oversee a total of 25 staff auditors.

The Veolia Group's IA plan is administered by region, where audit engagements are conducted by an assigned Veolia Group staff auditor. The subsidiaries (e.g., VNA) receives an audit assignment letter that describes the scope, focus, interviews, and data analytics to be reviewed during the audit prior to its start. VNA's IA projects include a focus on general data protection regulation (GDPR) compliance and principles for general data regulation in the USA. See Finding and Conclusion IV-1 for more information about the IA function.

In addition to the IA function's review of the internal control process, VNA and its subsidiaries are supported by Veolia Group's Control Assessment Process (CAP). The CAP is an ongoing evaluation of internal controls. Internal controls are evaluated at the control level, which could include utilities' data, but reviews only occur at the operating company level if the control is exclusive to that level. During the audit period, the CAP did not include any operating controls that were exclusive to VWPA.

The Veolia Group's enterprise values and code of conduct are communicated through its Ethics Guide, which applies to all boards, officers, and employees. Publicly available on the company website, the Ethics Guide addresses:

- Compliance with laws and regulations
- Anti-corruption/influence peddling
- Prevention of conflicts of interest
- Ethical commitments in accounting and financial matters
- Confidentiality and security
- The Corporate Duty of Vigilance Law⁴

Veolia employees and third parties can provide information on potential fraud, abuse, corruption, etc. by confidential contact to the Veolia Group's Ethics Committee via their company intranet. In addition, through the website or via telephone, concerns may be submitted anonymously by any party. Reporting of ethical concerns helps to ensure compliance with the company's code of conduct and is reviewed by the Ethics Committee. Investigations may be conducted by the Ethics Committee and/or the Veolia Group's Compliance Department.

⁴ On March 27, 2017, the French legislative enacted the French duty of vigilance law. This law holds parent companies civilly liable for its own activities and the activities of those companies it directly and indirectly controls, and the activities of its subcontractors and suppliers with whom it has established commercial relationships.

Findings and Conclusions

Our examination of the Corporate Governance function included a review of the Boards of Directors' for VWPA's direct and indirect parent companies including committee structure and charters; board fee structure; director independence, documents related to principles of corporate governance, relationships with the external auditor, internal audit function; ethics codes; etc. Based on our review, VWPA should initiate or devote additional effort to improving the efficiency and/or the effectiveness of its Corporate Governance function by addressing the following:

- **Finding IV-1: VWPA receives limited reviews and assessments of its internal control process by Veolia Group's IA function.**

Discussion

Finding IV-1: VWPA receives limited reviews and assessments of its internal control process by its Veolia Group's IA function.

During the audit period, no internal audits were performed with a specific focus on VWPA or VNA's Regulated Segment⁵. Apart from the CAP discussed in this chapter's Background, no VWPA specific testing or internal audit specific to utility operations was conducted. Some processes are unique to regulated utility operations, such as the mechanisms that ensure cross subsidization does not occur for shared services provided to regulated and non-regulated entities. In this type of environment, routine audits on cost allocations are a best practice to mitigate risk for unintended cross subsidization with shared services/costs between affiliates. Therefore, cost allocation methodologies used to allocate costs to regulated utilities should be tested periodically (see Chapter V-Cost Allocations and Affiliated Interests for more information about cost allocations).

As discussed previously, Veolia Group is a global company with multiple business segments and more than 200,000 employees, however, its IA function is composed of 30 staff. Thus, IA only completes about 50 projects per year, and VWPA as a small piece of the larger company, receives less focus on the mitigation of its operations-specific risks. IA strives to meet the needs of stakeholders through testing of the financial and operational controls, provide insights into the organization's operations and improve operating efficiency to mitigate the risk of fraud, waste, and abuse. However, without conducting periodic internal audits or reviews focused on the Regulated Segment, VWPA is at increased risk for potential non-compliance and possible cross subsidization.

Recommendation IV: Perform periodic operational audits at the operating company level and perform audits of corporate cost allocation processes at least every three years.

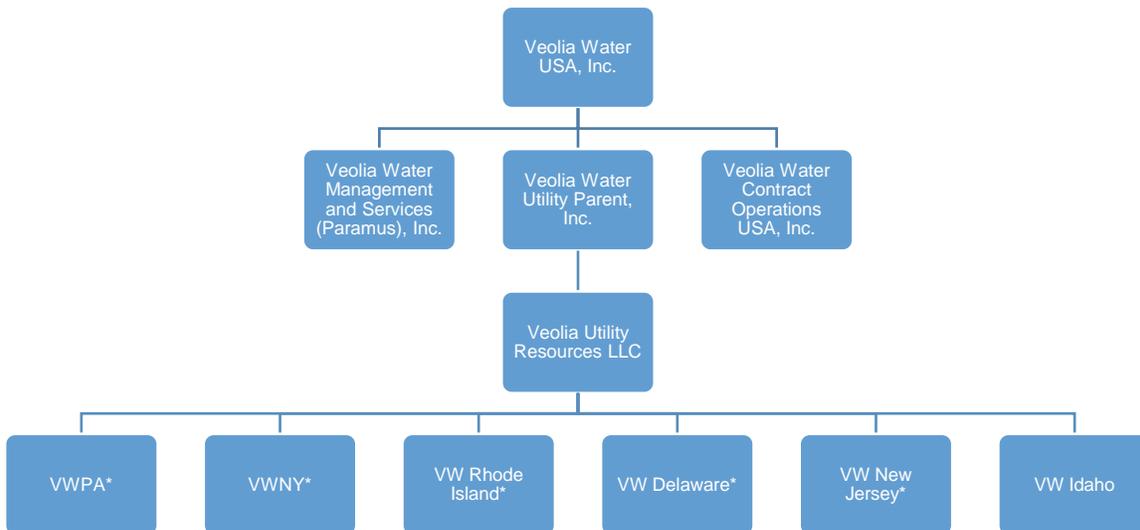
⁵ VNA's organizational structure includes Veolia Utility Parent Inc. (see Chapter II - Background), which is the parent company of VNA's regulated utility segment.

V. COST ALLOCATIONS AND AFFILIATED INTERESTS

Background

This chapter presents the results of the PUC auditors' review of the nature and extent of transactions between Veolia Water Pennsylvania, Inc. (VWPA) and its affiliates. As discussed previously in Chapter II-Background, VWPA has many affiliates, but not all interact with VWPA. During the audit period, VWPA transacted with both regulated and unregulated affiliates for various services. An abbreviated organization structure of VWPA and its affiliates with active intercompany transactions are presented in Exhibit V-1.

Exhibit V-1
Veolia Water Pennsylvania, Inc.
Abbreviated Legal Entity Structure of Affiliated Relationships
As of April 2024



* Regulated entity

Note: The abbreviated legal entity structure is limited to VWPA's affiliates with intercompany transactions during the audit period

Source: Data Request CA-1

As previously discussed in Chapter III – Executive Management and Organizational Structure, VWPA personnel routinely provide services to regulated, Mid-Atlantic Division⁶ affiliates. Additionally, VWPA occasionally provides services to

⁶ The Mid-Atlantic Division includes VWPA and VWDE. However, the Mid-Atlantic Division was comprised of VWPA, VWDE, and the south operating division of VWNJ for the years 2019-2021.

regulated affiliates outside of the Mid-Atlantic Division. The types of services provided by VWPA include engineering, finance, customer service, operations technology, and HR. Meanwhile, VWPA's transactions with Veolia Utility Resources LLC (VUR) represent transactions as a result of its participation in the centralized financial mechanisms like the centralized money pool, debt, and benefit programs. Additionally, intercompany transactions are created in the financial system as a result of using a parent level business unit header for journal entries. VWPA's intercompany charges to its affiliates are summarized in Exhibit V-2.

Exhibit V-2
Veolia Water Pennsylvania, Inc.
Summary of Charges from VWPA to Affiliates
For the Years Ended December 31, 2019 through 2023

Affiliate	2019	2020	2021	2022	2023
Veolia Water Delaware, Inc	\$ 697,208	\$ 452,755	\$ 656,004	\$ 823,504	\$ 1,253,026
Veolia Water Toms River, Inc	\$ 183,260	\$ 186,705	\$ 190,738	\$ 5,792	\$ 2,288
Veolia Water Idaho, Inc	\$ 27	\$ 881	\$ -	\$ -	\$ 869
Veolia Water New Jersey, Inc	\$ 998	\$ -	\$ -	\$ -	\$ 93,423
Veolia Water New York, Inc	\$ -	\$ 118	\$ -	\$ 4,211	\$ -
Veolia Water M & S (Paramus), Inc	\$ 528,578	\$ -	\$ 275,997	\$ -	\$ -
Veolia Water Contract Operations USA, Inc	\$ 78,683	\$ 45,136	\$ 52,072	\$ 53,669	\$ 40
Veolia Utility Resources LLC	\$13,022,853	\$ 4,006,892	\$ -	\$ -	\$ 11,691,419
Veolia Water USA Inc	\$ -	\$ -	\$ 7,046	\$ 647	\$ -
Total	\$14,511,607	\$ 4,692,487	\$ 1,181,857	\$ 887,823	\$ 13,041,065

Source: Data Request CA-6

VWPA also receives intercompany charges from its affiliates for services, money pool transactions, and adjustments from the interest, fees, and benefit plan administration charges. Exhibit V-3 summarizes the charges to VWPA from its affiliates during the audit period. Veolia Water Management and Services (Paramus), Inc. (VWM&S) provides centralized services to VWPA, which include direct and indirect charges. The indirect charges are distributed based on the allocations described in its cost allocation manual (see also Finding and Conclusion III-2 in the Executive Management and Organizational Structure Chapter). More specifically, shared services charged from VWM&S are allocated based upon a three-factor formula, equally weighted between gross revenue, total assets, and payroll. VWM&S shared services include executive services, financial planning, accounting and tax, treasury, internal audit, IT, legal, engineering and technical, procurement, corporate communications, internet services, HR, regulatory business, revenue management, facilities, business development, environmental, health and safety, and customer care. Meanwhile, VWPA's transactions with VUR represent transactions as a result of its participation in the centralized financial mechanisms like the money pool, debt, and benefit programs transactions (see Chapter VI – Financial Management for more information about VUR and the treasury function). Additionally, intercompany transactions are created in the

financial system as a result of using parent level business unit header for journal entries.

Exhibit V-3
Veolia Water Pennsylvania, Inc.
Summary of Charges from Affiliates to VVPA
For the Years Ended December 31, 2019 through 2023

Affiliate	2019	2020	2021	2022	2023
Veolia Water Delaware, Inc	\$ (3,032)	\$ (3,812)	\$ (2,820)	\$ (4,859)	\$ -
Veolia Water Owego, Inc	\$ -	\$ (126)	\$ (91)	\$ (236)	\$ -
Veolia Water Westchester, Inc	\$ (1,853)	\$ (5,418)	\$ (1,901)	\$ (5,803)	\$ -
Veolia Water New York, Inc	\$ (36,132)	\$ (39,538)	\$ (43,452)	\$ (310)	\$ (7,046)
Veolia Water Idaho, Inc	\$ -	\$ (6,144)	\$ (5,204)	\$ (8,382)	\$ -
Veolia Water Rhode Island, Inc	\$ -	\$ (118)	\$ (216)	\$ (83)	\$ -
Veolia Water Toms River, Inc	\$ (4,484)	\$ (650)	\$ (6,545)	\$ (11,954)	\$ (9,029)
Veolia Water New Jersey, Inc	\$ (14,074)	\$ (20,853)	\$ (48,409)	\$ (126,078)	\$ (92,819)
Veolia Water M & S (Paramus), Inc	\$(11,717,435)	\$ (9,859,129)	\$ (9,750,354)	\$ (9,850,173)	\$ (8,156,525)
Veolia Water Contract Operations USA, Inc	\$ (217)	\$ (88)	\$ -	\$ -	\$ (2,383)
Veolia Utility Resources LLC	\$(56,722,656)	\$(41,868,740)	\$(47,147,733)	\$(48,699,566)	\$(61,267,864)
Total	\$(68,499,883)	\$(51,804,616)	\$(57,006,725)	\$(58,707,444)	\$(69,535,666)

Source: Data Request CA-6

VVPA's intercompany transactions are supported by PUC approved affiliated interest agreements. These agreements identify the nature and extent of intercompany transactions and the terms for the interactions occurring between the affiliates and include:

- Docket No. G-2018-3002404 – covers transactions between VVPA and the subsidiaries of VUR
- Docket No. G-2016-2546454 – covers services provided to VVPA from VWM&S
- Docket No. G-2018-3002407 – covers the centralized bank account/money pool held by VUR

As mentioned in the Executive Management and Organizational Structure Chapter's Finding and Conclusion No. III-2, the PUC-approved AIAs have not been updated to reflect VVPA's name change in 2022 from SUEZ Water Pennsylvania, Inc.

Ringfencing is a term used to describe company actions intended to financially insulate a regulated utility from the potentially riskier business conditions associated with its nonregulated affiliates. Measures can include structural, legal and operational safeguards that separate the business activities of the regulated utility to help to ensure the reliability of services and its financial stability. Although part of a global corporation, all regulated US affiliates of Veolia Group are owned and operated by a single parent

company, VUR. Further, each regulated subsidiary maintains its own accounting records and financial statements. Additionally, VUR's parent company, Veolia Utility Parent Inc.'s shared ownership (see Chapter IV-Corporate Governance for more details) is governed by a shareholder agreement that details additional protections. Furthermore, specific ringfencing measures were included in the Settlement Agreement for the Joint Application of Veolia Environnement S.A., Veolia North America, Inc., SUEZ S.A., SUEZ Water Pennsylvania Inc. and SUEZ Water Bethel Inc. at Docket No: A-2021-3026515, A-2021-3026522 and A-2021-3026523.

Findings and Conclusions

Our examination of VWPA's Cost Allocations and Affiliated Interests focused primarily on the review of cost allocation methodologies, cost allocation policies, practices, and procedures, an examination of affiliated interest agreements and intercompany transactions. Based upon our review, it appears that proper controls exist, and the Cost Allocations and Affiliated Transactions related practices are being performed in a satisfactory manner.

Recommendation

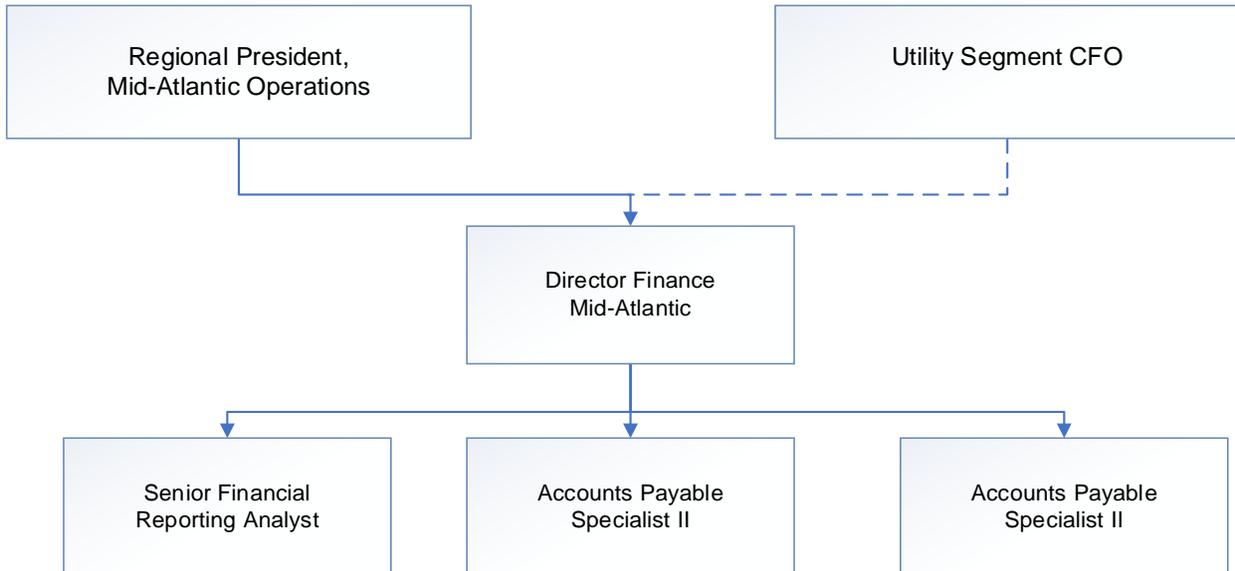
None

VI. FINANCIAL MANAGEMENT

Background

The financial management function is bifurcated between Veolia Water Pennsylvania, Inc.'s (VWPA or company) finance department and Veolia Water Management & Services, Inc. (VWM&S or Service Company). VWM&S provides centralized financial services such as multi-year budgeting, financial planning and reporting, treasury, auditing, accounting, etc. for all Veolia Utility Parent Inc. (VUPI) subsidiaries including VWPA. Exhibit VI-1 shows an abbreviated version of VWPA's Financial Management organization which functions under a matrix structure. VWPA's Finance Director reports directly to the Regional President, Mid-Atlantic Operations (RP, Mid-Atlantic) and indirectly to VUPI and Veolia Utility Resources, Inc.'s (VUR) Chief Financial Officer (US-CFO). Both the RP, Mid-Atlantic and Finance Director have responsibilities and oversight of the Veolia Utility Resources, Inc. (VUR) Mid-Atlantic Division⁷ (Mid-Atlantic). As shown in the exhibit, the Finance Director oversees three VWPA employees. This group handles requisition approvals, budgeting and variance reporting on operating expenses (OpEx) accounts for all VUR's Mid-Atlantic subsidiaries including VWPA.

Exhibit VI-1
Veolia Water Pennsylvania, Inc.
Financial Management Organization Chart
As of August 2024



Note: This exhibit shows an abbreviation of the organizational structure
Source: Data Request EM-1 and Company Provided Data

⁷ VNA's subsidiaries include Veolia Utility Resources LLC which is the parent company of all VNA regulated utility operations, including its Mid-Atlantic companies (VWPA and Veolia Water Delaware, Inc.).

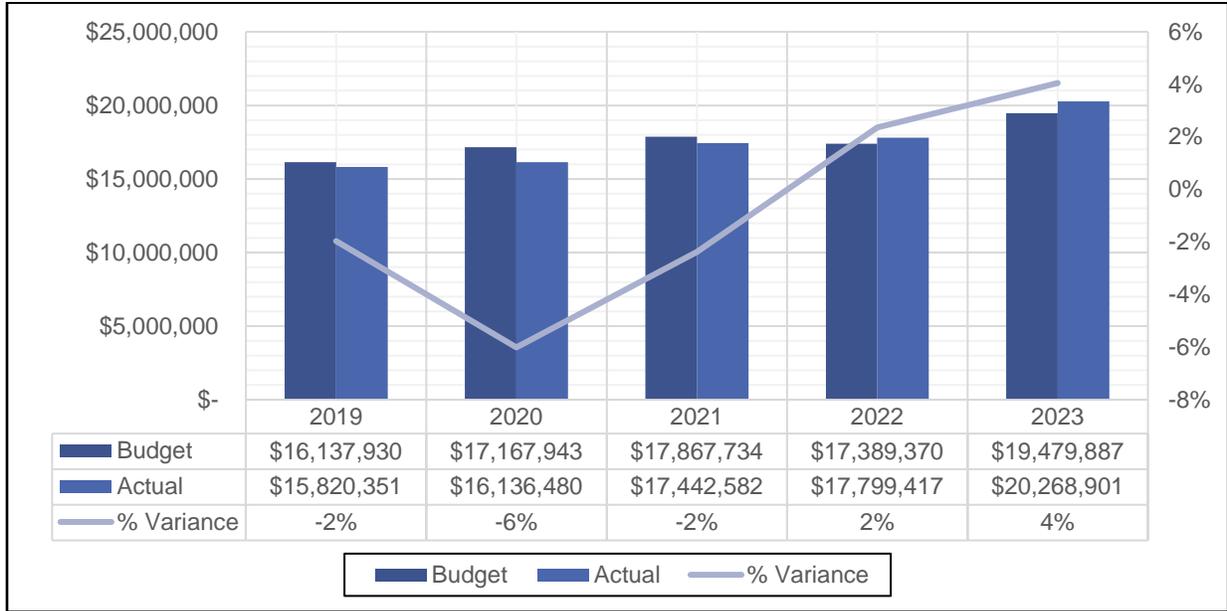
VWPA's Finance Director has oversight of the company's financial management function, including VWPA's income statement (OpEx) accounts, whereas VWPA's Engineering Manager is responsible for management of VWPA's capital expenditures (CapEx). Both units work together to synchronize OpEx and CapEx incurred by VWPA.

Budgeting Process

VWPA's budgeting process starts around mid-July of each year. The prior year budget is reviewed for notable variances between the planned and actual expenses for both OpEx and CapEx. VWPA's preliminary OpEx and CapEx budgets are reviewed and completed by the RP, Mid-Atlantic and the US-CFO by early September. Once approved, VWM&S's Corporate Financial Planning Team reviews and combines all the Utility Business Units' OpEx and Capex budgets. In November, the consolidated VNA budgets are sent to Veolia Environnement S.A. (Veolia Group) for final approval. The budgets are then ready for use at the start of the year.

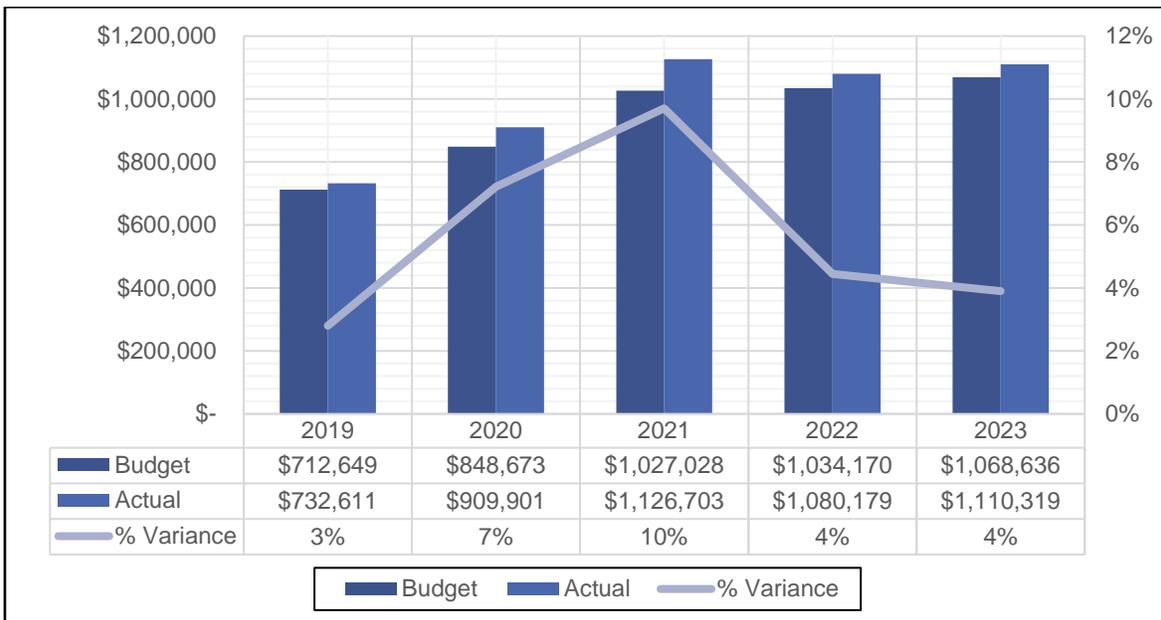
As the year progresses, VWPA's revenues and operating expenses are monitored by the Finance Director. Monthly variance meetings for all Mid-Atlantic companies, including VWPA's water, wastewater, and Bethel divisions, occur between VWPA's Finance Director, the RP, Mid-Atlantic, and the VWM&S US-CFO. OpEx variance reporting includes data on key financials, with explanations for significant differences in month-to-date or year-to-date actual revenues/expenditures in comparison with budgeted revenues/expenditures. Generally, explanations are required for amounts over/under 10% of the budgeted amount by line item/account. However, any large swing in an account will be investigated by VWPA's Finance Director, regardless of the variance percentage. As illustrated in Exhibits VI-2 through VI-4, VWPA's actual operating and maintenance accounts for its water, wastewater, and Bethel divisions are well managed and adhere closely with budgeted amounts for 2019 through 2023.

Exhibit VI-2
Veolia Water Pennsylvania, Inc.
Water Division Budget to Actual Operating and Maintenance Expenses
For the Years Ending December 31, 2019 through 2023



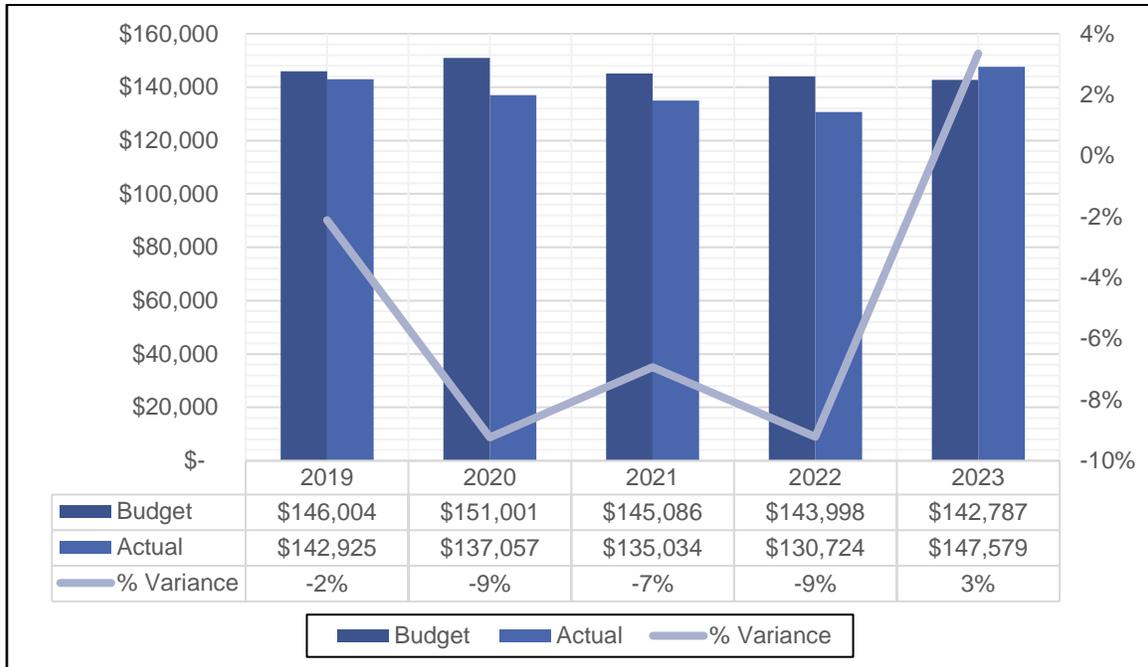
Note: Amounts shown exclude interest, income taxes, depreciation, and amortization
Source: Data Request FM-6 and auditor analysis

Exhibit VI-3
Veolia Water Pennsylvania, Inc.
Wastewater Division Budget to Actual Operating and Maintenance Expenses
For the Years Ending December 31, 2019 through 2023



Note: Amounts shown exclude interest, income taxes, depreciation, and amortization
Source: Data Request FM-6 and auditor analysis

**Exhibit VI-4
Veolia Water Bethel, Inc.
Bethel Division Budget to Actual Operating and Maintenance Expenses
For the Years Ending December 31, 2019 through 2023**

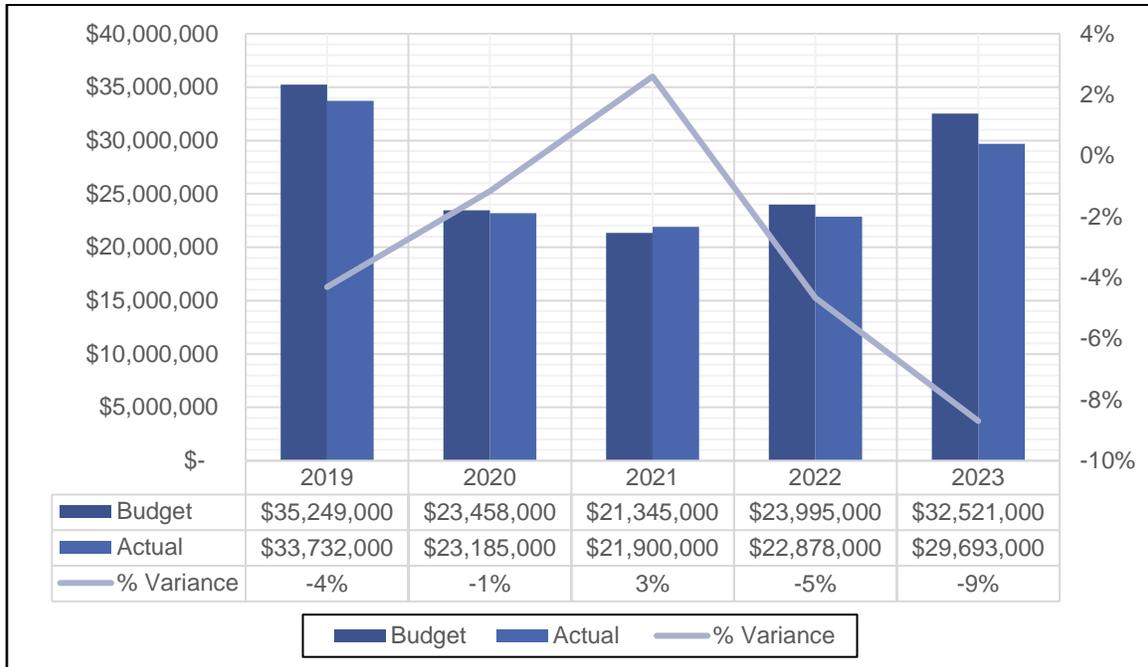


Note: Amounts shown exclude interest, income taxes, depreciation, and amortization
Source: Data Request FM-6 and auditor analysis

The CapEx Plan is a five-year plan comprised of the upcoming year's CapEx budget and projections for the following four years. The CapEx Plan establishes the need and priority of future capital projects by incorporating customer growth, customer demand, and expansions. For each potential project, VWPA's Engineering Department determines the available alternatives and associated costs. This review may result in projects being added, deleted, or moved within the CapEx Plan.

Exhibit VI-5 compares VWPA's actual to budgeted CapEx totals for the years 2019 through 2023 for Water Operations. No CapEx was incurred for Wastewater and Bethel operations during the period. VWPA's actual CapEx adhered closely with budgeted amounts for 2019 through 2023. See Chapter VII – Water Operations for more information about VWPA's capital projects.

Exhibit VI-5
Veolia Water Pennsylvania, Inc.
Water Division Budget to Actual Capital Expenditures
For the Years Ending December 31, 2019 through 2023



Source: Data Request FM-7

Treasury Department

The VWM&S Treasury department (Treasury) serves as the administrator of a money pool for VUR subsidiaries, in which VWPA participates. Treasury oversees the movement of cash and monitors VUR’s working capital requirements on a consolidated basis to ensure cash needs are met by the money pool. The VWM&S Treasury department assists in the issuance of letters of credit, which is required to support business needs, cash forecasting, debt management, and covenant compliance. In addition, the Treasury department takes part in the issuance of private placement and renewal of credit facilities. Treasury has an internal control system with policies to ensure fraud is prevented including limiting individuals who have access to make payments.

VWPA does not have short or long-term debt, all borrowing is done at the parent level by VUR. Exhibit VI-6 presents VUR’s capital structure between 2019 and 2023. During this same period, VUR has consistently maintained an A- credit rating, with stable outlook, from Standard & Poor.

Exhibit VI-6
Veolia Utility Resources LLC
Capital Structure Summary (%)
2019 - 2023

	2019	2020	2021	2022	2023
Long Term Debt	43.20%	46.29%	44.10%	44.94%	46.45%
Common Equity	56.80%	53.72%	55.90%	55.06%	53.55%
Total	100%	100%	100%	100%	100%

Note: Data was computed based on average/year
Source: Data Request FM-13 and Auditor Analysis

Dividends are paid semi-annually and calculated based on actual cash balances. When VWPA (or any VUR subsidiary) generates excess cash, it pays a dividend to VUR. When the subsidiary need funds for large capital expenditures, the VUR infuses a cash contribution into the subsidiary. Treasury prepares a Dividend/Cash Infusion memo that details the dividend or cash infusion requests that are being made based on the June and December month-end closing information available at the time. Treasury verifies that the payment of the transactions does not violate any covenants, and the transactions are made via journal entry with no cash movement. Once the memo is approved, the Accounting department posts the entries. Exhibit VI-7 shows the schedule of dividend payments VWPA and Veolia Bethel made to VUR.

Exhibit VI-7
Veolia Water Pennsylvania, Inc.
Veolia Water Bethel, Inc.
Summary of Dividends Paid to VUR
2019 –2023

	<u>VWPA</u>	<u>Bethel</u>
2019	\$ 0	\$ 39,133
2020	0	0
2021	3,931,577	110,266
2022	4,181,792	81,889
2023	0	0

Source: Data Request FM-15

The Treasury Department also oversees funding of the company’s pension plan. VWPA employees hired prior to 2010 were eligible to participate in a defined benefit plan and a retiree healthcare plan. Both plans are consolidated under VWPA’s parent company, VUR. As shown in Exhibit VI-8 VUR’s Defined Benefit Plan and Post-retirement Benefits Other than Pensions (PBOP) appear well funded.

Exhibit VI-8
Veolia Utility Resources LLC
Defined Benefit Plan and Post-Retirement Benefits Other than Pensions (PBOP)
Funding Status (\$ in thousands)
For the Years Ended December 31, 2022 and 2023

	Pension Plan		PBOP Plan	
	2023	2022	2023	2022
Benefit obligation	\$286,650	\$275,740	\$66,861	\$65,374
Fair value of plan assets	\$261,958	\$245,379	\$100,688	\$88,198
% Funded	91.39%	88.99%	150.59%	134.91%

Source: Data Request FM-20

Findings and Conclusions

Our examination of the Financial Management function focused primarily on a review of the accounting policies and procedures, the capital and operating budget processes, budget variance tracking and reporting, cash management, dividend policies, and short- and long-term financing activities, etc. Based on our review, it appears that proper controls are in place and that the Financial Management-related functions are being performed in a satisfactory manner.

Recommendation

None

VII. WATER OPERATIONS

Background

VWPA serves approximately 70,000 drinking water customers across ten counties⁸. The company's distribution system is split geographically between a northern and southern territory, with each containing two service regions: Bloomsburg and Dallas in the north and Harrisburg and Mechanicsburg in the south. Additionally, as of 2023, the Bethel system, which provides water to customers in Bethel Township in southeastern Pennsylvania, is part of VWPA and is included within data reported to the PUC since 2023. However, employees of Veolia Water Delaware operate the Bethel system⁹. VWPA has six water treatment plants within its service territory, capable of producing approximately 24 MGD. Service characteristics for each region are shown in Exhibit VII-1 below.

**Exhibit VII-1
Veolia Water Pennsylvania, Inc.
Service Region Characteristics
As of April 16, 2024**

Region	Miles of Main	Number of Services	Number of Treatment Plants	Plant Capacity (MGD)
Harrisburg	577.2	41,365	2	16.00
Mechanicsburg	187.2	15,046	2	3.70
Bloomsburg	116.8	7,193	1	4.00
Dallas	59.8	3,627	1	0.33
Bethel	40.2	2,533	0	0*
Total	981.2	69,764	6	24.33

* The Bethel system buys bulk water for its operations from Veolia Water Delaware
Source: Data Request WO-4

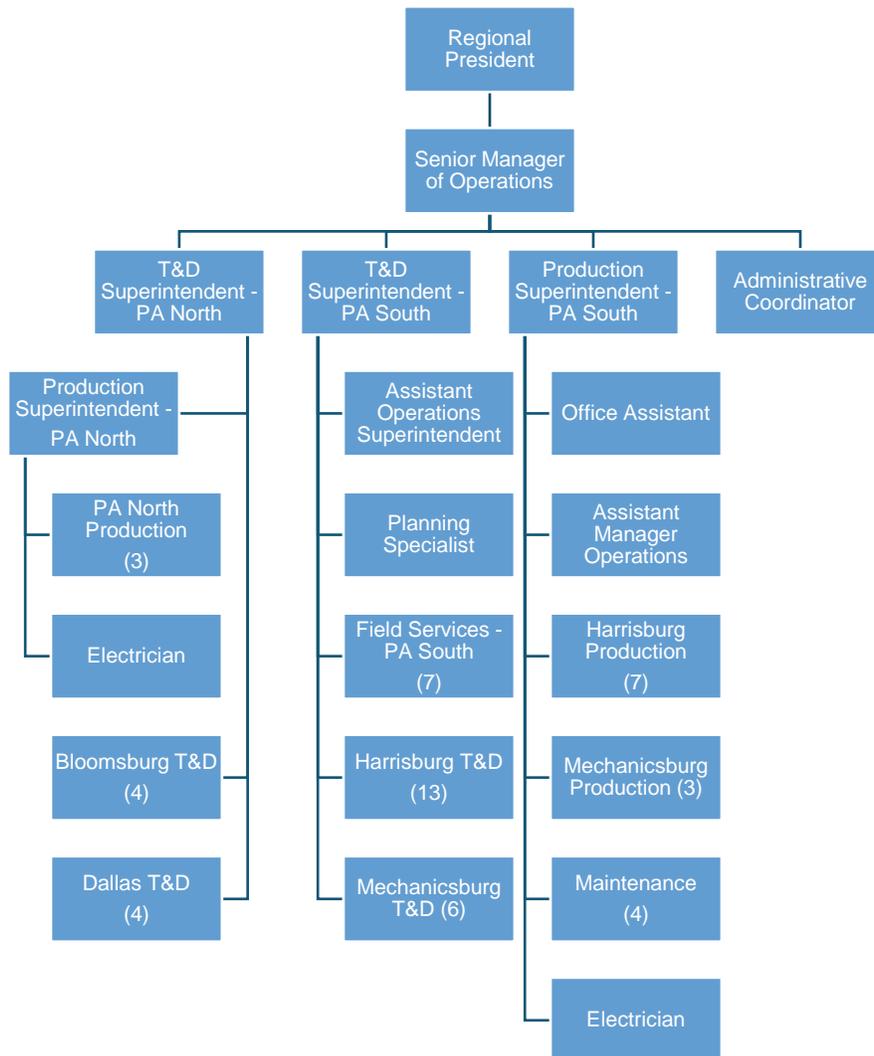
In addition, VWPA provides wastewater services to customers within its Bloomsburg service region, providing wastewater collection and treatment services for Columbia County Industrial Park (CCIP) and only collection services for the east side of Montour County's Mahoning Township. Commercial and industrial collections from the CCIP are fed to a 0.035 MGD activated sludge plant via a gravity system. Meanwhile, the Mahoning Township system collects residential, commercial, industrial, and municipal flows that are transported via two system pumping stations for treatment at the Danville Sewage Treatment Plant.

⁸The ten counties served by VWPA for drinking water include Columbia, Cumberland, Dauphin, Delaware, Franklin, Luzerne, Perry, Schuylkill, Wyoming, and York.

⁹ See Chapter II-Background for more information about the merger of VWPA and Veolia Water Delaware. See Chapter V-Cost Allocations and Affiliated Interests for more details on intercompany transactions between Veolia Water Delaware, Inc. and VWPA.

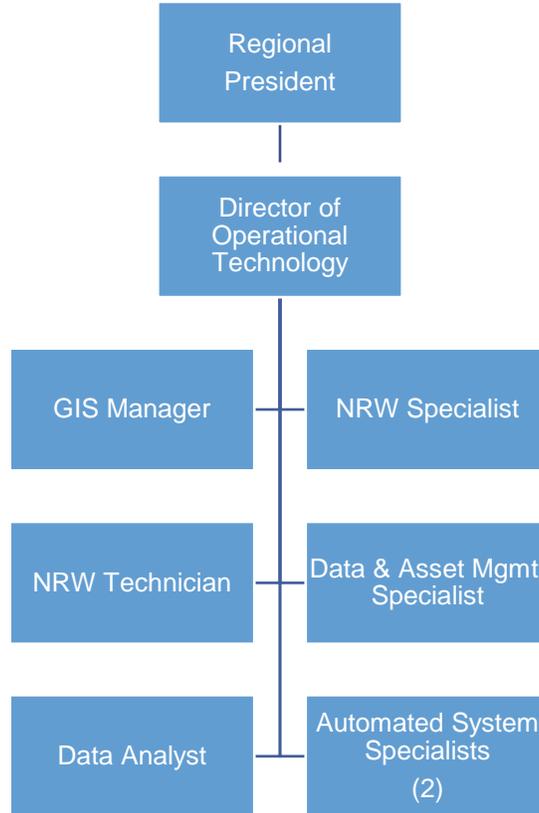
To carry out operational functions, VWPA divides its reporting structure between water/wastewater operations and operational technology (OT), which both report to VWPA's Regional President. The VWPA Senior Manager of Operations oversees the physical tasks of a water utility (e.g., production, distribution, leak repair, field service, etc.), whereas VWPA's Director of OT oversees the research, deployment, and maintenance of company technology to assist water operations. Operational technology activities include leveraging GIS, piloting technologies to help reduce the company's non-revenue water (NRW), and scheduling routine maintenance on company above-ground infrastructure. VWPA's organizational charts for water operations and operational technology departments are presented in Exhibit VII-2 and Exhibit VII-3, respectively.

Exhibit VII-2
Veolia Water Pennsylvania, Inc.
Water Operations Department Organization Chart
As of July 2024



Source: Data Request EM-1, Interview Summary WO-1, and Company Provided Data

Exhibit VII-3
Veolia Water Pennsylvania, Inc.
Operational Technology Department Organization Chart
As of July 2024



Source: Data Request EM-1 and Company Provided Data

Large projects involving engineering at VWPA are the responsibility of the Director of Engineering. This position meets with other VWPA departments, Veolia Management & Services Inc. (VWM&S) groups, and external entities on a frequent basis to determine capital project schedules and their associated budgets. The Director of Engineering attends multiple meetings, such as a VWPA engineering team meeting that occurs weekly, a corporate-level engineering meeting that occurs bi-weekly, and variable project meetings for on-going initiatives based on project type.

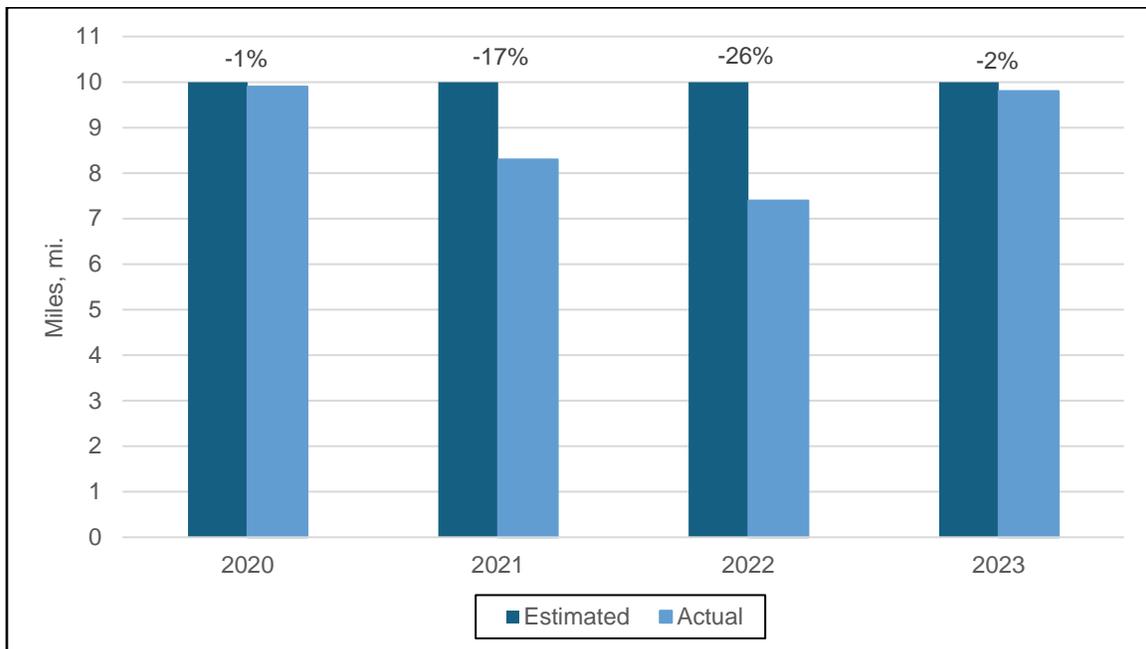
Annually at the end of June/beginning of July VWPA begins work on its five-year medium-term plan (MTP) for capital projects. The MTP details proposed capital budgets for the upcoming fiscal year with the remaining four years in the MTP outlining future capital projects. After receiving input from VWM&S on overall guidance, the Director of Engineering and the VWPA engineering group work with other VWPA departments to determine project priority. Factors like compliance, monetary value, service value, risk, and SHINE¹⁰ are considered during this process. After verifying the

¹⁰ SHINE is a factor coined by VWM&S that accounts for a project that incorporates innovative design.

MTP with other departments at VVPA, the plan is sent to VWM&S for approval before final approval by Veolia North America. Actual to budget performance for VVPA's capital budgets are shown in Chapter VI - Financial Management Exhibit VI-5.

The company's engineering group also oversees VVPA's main replacement effort. VVPA considers key data from water quality reports, leaks/breaks, high-flushing areas in the system, areas with high T&D involvement, material age, and material specifications when evaluating which pipe segments to replace. VVPA intends to further enhance its replacement methodology by using Consequence of Failure (CoF) and Likelihood of Failure (LoF) factors¹¹ by the end of 2024. Throughout the audit period, VVPA has averaged a 110-year replacement rate for its infrastructure¹². In between the company's two LTIIP submissions in 2017 and 2021, VVPA has removed approximately 48 miles of cast iron, galvanized steel, and asbestos cement pipe¹³. The company's actual main replacement efforts and goals for 2020-2023 and yearly variance percentages are detailed in Exhibit VII-4. The replacement amounts observed in 2021 and 2022 were affected by the COVID-19 pandemic and its effects on lead times, project cost, and decreased contractor staffing.

Exhibit VII-4
Veolia Water Pennsylvania, Inc.
Annual Main Replacement Efforts
2020-2023



Source: Data Request WO-10

¹¹ The CoF factors will consider components such as critical facilities, population density, blockages, etc. whereas the LoF factor consider components such as soil type, water velocities, bottlenecks, etc.

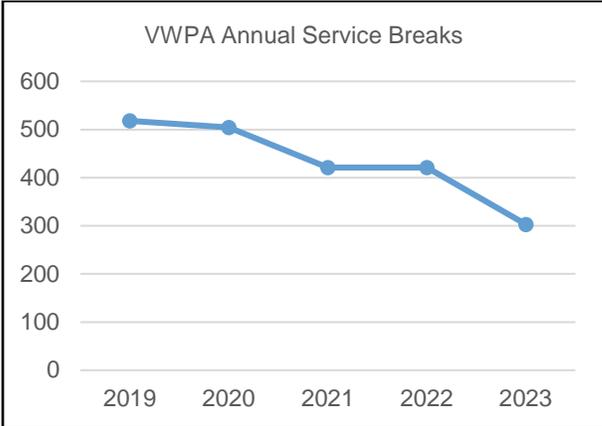
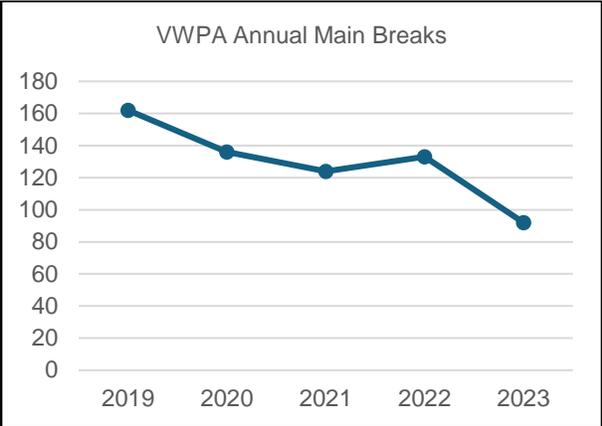
¹² Value was calculated using the total miles provided in VVPA's 2017 LTIIP and its 2020 Modification Petition (P-2017-2589724) the company's 2021 LTIIP (Docket No. P-2021-3028856), the company's response to the WO-4 data request, and the information VVPA provided in its PUC annual reports.

¹³ Values obtained from the company's 2017 LTIIP (P-2017-2589724) and 2021 LTIIP (P-2021-3028856).

VWPA monitors its non-revenue water (NRW) and unaccounted for water (UFW) levels and has long-term overall and regional goals to reduce NRW to under 20%. The company is leveraging operational processes, technology, and software to improve UFW. For example, the company has deployed district metered areas (DMAs) throughout its service territories. DMAs allow the company to monitor water volume supplied with water volume billed to customers within a specific area. A large variance between these values would give the company insight into potential leaks or problems in that area. Then VWPA can compare other DMA values to develop a strategic approach of targeting non-surfacing leak repair and, if necessary, pipe replacement.

In 2020 and 2021, VWPA deployed a strategic initiative implementing satellite-imagery software in the company’s Harrisburg and Mechanicsburg service regions. This software allows the company to identify locations where treated water is travelling through soil. In addition, the company has implemented two leak detection sensors (LDS); one sensor was more effective at detecting leaks along metal pipes whereas the other performed best at locating leaks along plastic pipes. For the future, VWPA is striving to reduce its NRW and UFW levels by finding leaks quickly, addressing theft of service, and monitoring DMA values. Refer to Finding VII-4 for more information on VWPA’s UFW and NRW. In addition, the company has shifted its mentality on breaks from “break, find, and fix” in 2019 to striving to repair breaks within three days of being located¹⁴. Together, all these changes are helping to improve VWPA’s annual main and service break data, as detailed in Exhibit VII-5.

**Exhibit VII-5
Veolia Water Pennsylvania, Inc.
Annual Main and Service Breaks
2019-2023**



Source: Data Request WO-12 and Data Request WO-14

¹⁴ Per the company, service line break repair may occasionally run longer as it takes a customer longer to repair their side of leaking service.

As mentioned previously, the operational technology department is responsible for leveraging technology to perform business functions and to provide service to its customers. For example, the OT department helped deploy an Esri-based GIS software for cataloging and locating company infrastructure. The GIS system allows employees to view the company's water and wastewater assets like mains, valves, fire hydrants, meters, etc. The GIS system tracks asset information, such as main material type, diameter, hydrant ownership, etc. To capture location information, transmission and distribution (T&D) employees are equipped with GPS units to catalog newly placed infrastructure or infrastructure undisturbed since the company's current cataloging process. This information is then verified by the GIS Manager and their team. The GIS system also houses a robust key-performance indicator (KPI) dashboard that allows for efficient report generation. Critical customers are also identified in the GIS system with an effort beginning in early 2024 to automatically update customer information whenever a change occurs in the company's customer service system.

Meanwhile, a separate software for operations and maintenance (O&M) orders has been used by the company since 2021. The software pulls information from the company's GIS system to provide T&D information for completing Pennsylvania One Call ticket requests as well as field work/maintenance work orders. The software can assign work orders to T&D employees and can automatically generate follow-up work orders when necessary. This work order process provides the company with a robust audit trail, detailing the work performed, work completion dates, and who performed the work.

Findings and Conclusions

Our examination of the water operations function included a review of policies and procedures, capacity planning, drought contingency planning, engineering and construction, maintenance, production, main replacement, non-revenue water, damage prevention, and the cross-connection program. Based on our review, VWPA should devote additional effort to improve the effectiveness of its water production, transmission, and distribution operations by addressing the following:

- **Finding VII-1: VWPA does not have a damage prevention manual nor a process to capture relevant damage information such as number of hits, cost of damages, amount billed, and amount collected.**
- **Finding VII-2: VWPA has not developed certain operational manuals and has outdated physical copies of manuals at several facilities.**
- **Finding VII-3: The percentage of commercial and industrial customers testing their backflow prevention devices has significantly declined since 2019.**
- **Finding VII-4: VWPA's UFW levels are above 20% and are reported incorrectly.**

Discussion

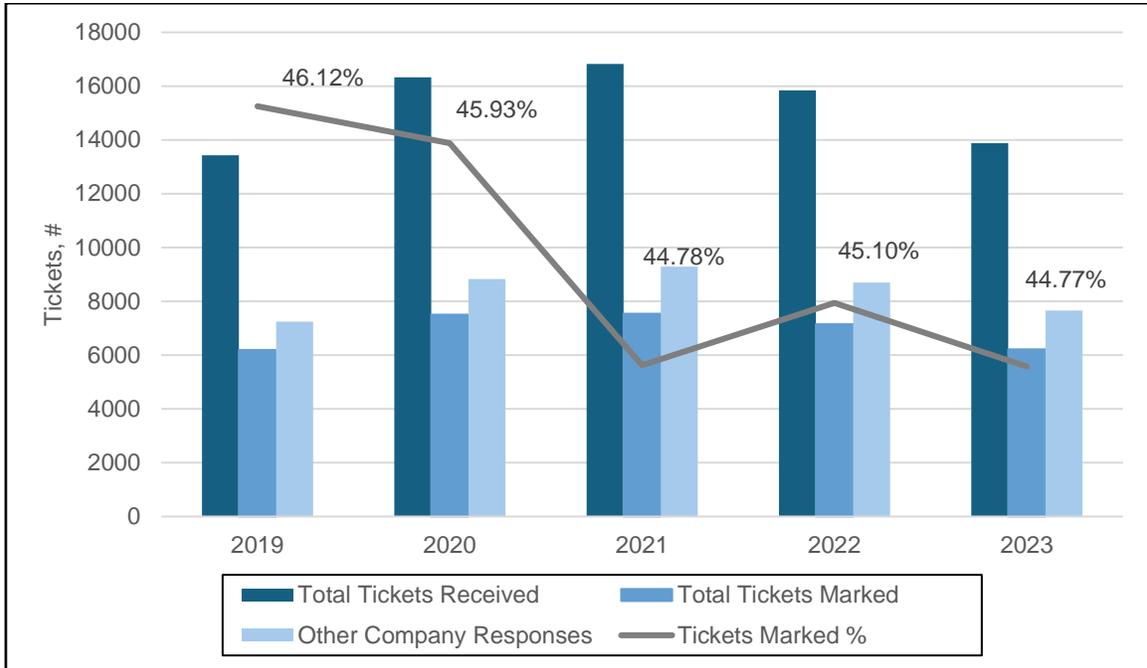
Finding VII-1: VWPA does not have a damage prevention manual nor a process to capture relevant damage information such as number of hits, cost of damages, amount billed, and amount collected.

The 2017 Underground Utility Line Protection Law (Act 50) assigns oversight and enforcement for damage prevention to the Pennsylvania Public Utility Commission and additionally defines roles and responsibilities for all parties involved in construction projects in Pennsylvania. The main goal of Act 50 is to prevent damages to underground infrastructure and to establish protocols and enforcement when a damage occurs. Under Act 50, VWPA can have multiple roles but is generally either a facility owner or project owner where its own employees or contracted resources are doing work underground. As such, VWPA must protect its own infrastructure and follow safe digging practices when performing work on its system.

During audit fieldwork, VWPA's damage prevention program lacked a comprehensive damage prevention manual that documented VWPA's procedures for complying with Act 50. In addition, VWPA training for locating infrastructure is performed by internal staff via on-the-job training, but no documentation of these procedures currently exists. Furthermore, the PUC auditors found that VWPA was not formally tracking data on infrastructure hits and amounts collected. Instead, VWPA shared ticket data collected from the Pennsylvania One Call System¹⁵, a non-profit corporation created to protect underground facilities. VWPA-ticket information along with percentages for the number of total tickets marked is shown in Exhibit VII-6.

¹⁵ "Pa One Call." PA PUC, <https://www.puc.pa.gov/pipeline-safety/pa-one-call/>.

**Exhibit VII-6
Veolia Water Pennsylvania, Inc.
Locate Ticket Data
2019-2023**



Source: Data Request WO-17

VWPA proposed that it plans to create a damage prevention manual and has the foundations of a company-wide damage prevention tracking system in place. The company plans to use an administrative position at the company to generate bills from damages due to Pennsylvania One Call ticket requests. The administrative position will use request information in the company’s O&M software to produce the subsequent bills. The company indicated it targeted year-end 2024 to complete both the damage prevention manual and its damage prevention program.

Because VWPA was not tracking damage statistics, the PUC auditors were unable to assess the damage prevention performance of VWPA. Without this data, VWPA is also unable to track and monitor its own performance and risks missing enforcement of contractor or third-party damages. According to Pennsylvania’s 811 Elements of a Pennsylvania Damage Prevention Program¹⁶, a regulated utility should have a Damage Prevention program and plan to, “continually improve damage prevention metrics, reduce the number of damages, minimize excavation damages and promote safety and awareness to all stakeholders.” In addition, creating and maintaining a damage prevention manual is a best practice and required for gas utilities under 49 CFR § 192.614. Although VWPA is not a gas utility, the company should create a comprehensive damage prevention program that documents its procedures, tracks performance, and takes corrective action as needed.

¹⁶ From Pennsylvania 811’s <https://www.pa1call.org/pocs/29c3dc27-251b-40d7-b1bc-35fe22a59a3c/Elements-of-a-Pennsylvania-Damage-Prevention-Plan?viewmode=0>.

Recommendation VII-1: Establish and create a company-wide damage prevention program that includes a damage prevention manual and a system for tracking hits and damage amounts.

Finding VII-2: VWPA has not developed certain operational manuals and has outdated physical copies of manuals at several facilities.

As noted in Chapter II-Background, VWPA has undergone several structural changes in recent years. These changes coupled with other priorities at the company have led to several standard operating procedures (SOPs) to vary in terms of formality, completeness, etc.

Although each facility the audit staff visited had a combination of physical and electronic SOPs, the documents varied on their last reviewed date. For example, one SOP had a date of last reviewal in March 2016 whereas another had January 2023. In addition, other procedures were nonexistent like the damage prevention manual discussed in Finding VII-1 or a formal written policy on production and distribution meter testing. However, VWPA's management indicated that they plan to have uniform SOPs within VWPA's cloud software by the end of 2024. Once created, these SOPs will be updated annually and will include a revision history. Management stated that operational SOPs related to T&D efforts will be more streamlined whereas operational SOPs pertaining to production will be more complex because these would be tailored towards specific facilities.

It is an industry best practice for companies to maintain and regularly review operational manuals/SOPs. Additionally, employees should have access to both electronic and physical copies of these documents. Creating and maintaining SOPs when appropriate allows a company to insulate itself from employee turnover, reduce learning curves associated with job responsibilities, and help to ensure reliability and efficiency for its customers.

Recommendation VII-2: Develop standard operating procedures where appropriate and create a process to update policies and procedures on a recurring basis.

Finding VII-3: The percentage of commercial and industrial customers testing their backflow prevention devices has significantly declined since 2019.

Per 25 Pa Code § 109.709, no person may introduce contaminants into a public water supply through a service connection of a public water system. To prevent this, customers must eliminate cross-connections or use backflow devices (devices that ensure water can only flow in one direction) to prevent contamination from both backsiphonage and backpressure. If a customer fails to eliminate possible cross-

connections within a reasonable amount of time, the water supplier shall discontinue service after the customer has been given reasonable notice. 25 Pa Code § 109.709 further states that with the direction of Pennsylvania's Department of Environmental Protection, public water suppliers shall develop and implement a comprehensive control program for the elimination of existing cross-connections and prevention of future cross-connections. Public water suppliers will include in this control program:

- A description of the methods and procedures to be used
- An implementation schedule for the program
- Legal authority for implementation of the program, such as, by ordinance or rules
- A time schedule for inspection of nonresidential customers' premises for cross-connections with appropriate recordkeeping
- A public education program for residential customers
- A description of the methods and devices which will be used to protect the water system
- A program for the review of plans for new customers to assure that no new cross-connections are developed
- Provisions for discontinuance of water service, after reasonable notice, to premises where cross-connections exist

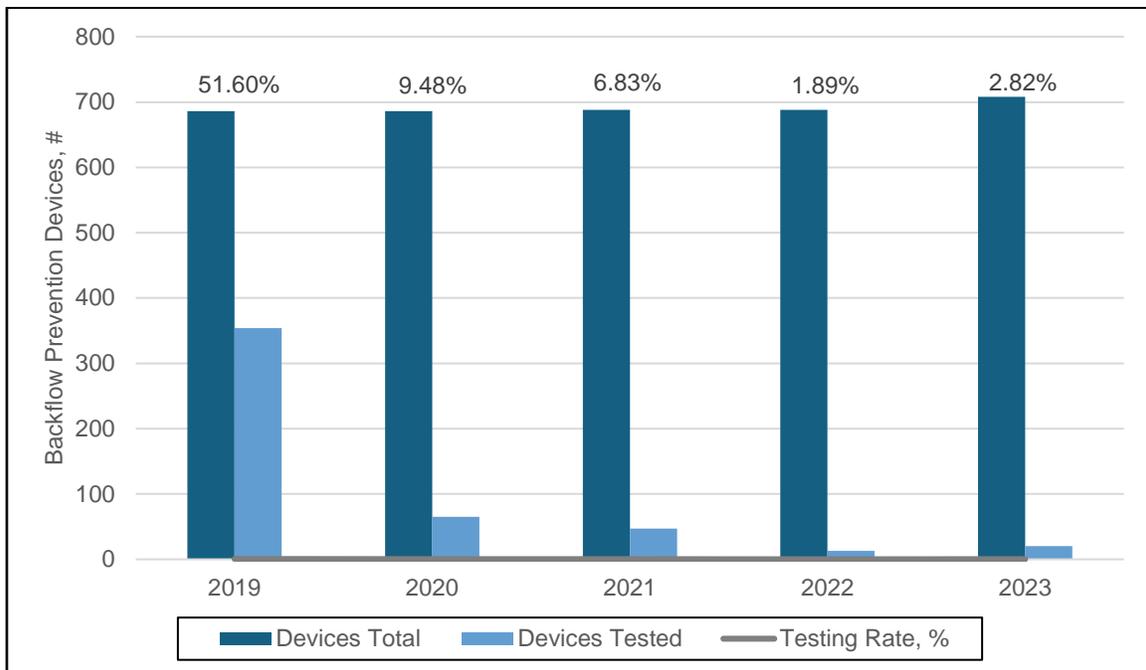
VWPA has a cross-connection control plan implemented throughout its service territory, with a focus on high-hazard facilities like commercial and industrial customers. To ensure compliance with the plan, cross-connection control surveys are performed at customer facilities by the company or a third-party on behalf of the company. After the initial cross connection control survey is performed, subsequent survey-frequency is based on facility hazard potential determined from the initial survey. A facility determined to have a low-hazard potential for cross contamination will conduct surveys every five years whereas a facility with a high-hazard potential must conduct surveys annually.

Similarly, testing applicable backflow prevention devices is performed to ensure compliance with the company's cross-connection control plan. Customers that the plan pertains to will receive a notice annually for devices to be inspected by a certified backflow prevention device tester; the tester will send the test results back to VWPA. Customers are required to have certain backflow prevention devices installed depending on facility type and hazard potential. Low hazard facilities must have an approved double check valve assembly whereas high hazard facilities must have an approved reduced pressure assembly.

The rate of backflow prevention device testing performed throughout the audit period is shown in Exhibit VII-7. Between 2019 and 2023, compliance with the company's backflow prevention device testing requirements decreased significantly from a 52% testing rate in 2019 to a 3% testing rate in 2023. In 2022, the backflow prevention function was transferred to the Water Quality and Compliance department in the company. This transition was aimed at improving poor testing rates since the pandemic, but limited resources prevented the company from making much improvement by the end of 2023. Additionally, the company has been hesitant to shut

off customers not in compliance with VWPA’s cross-connection control policy due to extenuating circumstances¹⁷. By not being proactive with its own cross-connection control policy, VWPA is at an increased risk for contamination of its public water supply.

Exhibit VII-7
Veolia Water Pennsylvania, Inc.
Annual Backflow Prevention Device Testing
2019-2023



Source: Data Request WO-28

Beginning in 2024, VWPA entered an agreement with a third-party company to perform backflow prevention device testing and cross-connection surveying throughout VWPA’s service territory. In addition, the third-party assisted in developing VWPA’s new Cross-Connection Control Manual. This manual, among other items, included the requirements detailed above from 25 Pa. Code § 109.709 (e.g., authority, cross-connection survey procedures, compliance monitoring, public education, backflow prevention devices and assemblies, etc.).

As of 2024, VWPA has determined that approximately 5,900 customers will either need to be surveyed or a new backflow prevention device installed. To ensure customer compliance, VWPA’s goal is to conduct 600 inspections per year through its contractor. As of June 2024, VWPA’s third-party has completed 270 inspections at customer facilities. Assuming the annual inspection goal is met, VWPA will complete inspections of its eligible customers by 2033. As the company catalogs the installed

¹⁷ The audit staff recognizes that commercial and industrial customers vary by services and criticality (e.g., carwash vs. hospital, etc.). More outreach and communication may be necessary to prevent shutoffs from occurring.

backflow prevention devices, VWPA should strive to achieve backflow assembly device testing at an annual rate of at least 80%.

Recommendation VII-3: Increase backflow prevention device testing to 80% annually to ensure facility compliance with the company's tariff and adhere to the company's cross connection control program.

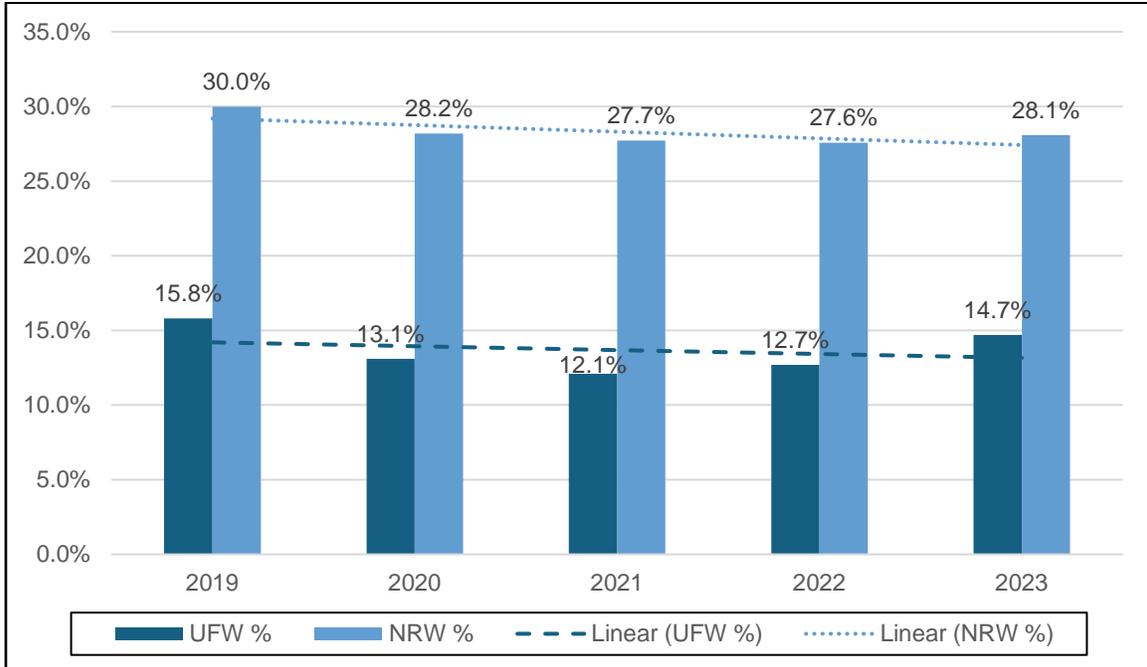
Finding VII-4: VWPA's UFW levels are above 20% and are reported incorrectly.

From 1997 to 2000, the International Water Association's (IWA) Water Loss Task Force developed the Water Audit Methodology that was adopted by the American Water Works Association's (AWWA) Water Loss Control Committee as industry best management practice in 2003. The foundation of this methodology was based on a top-down approach to account for all water losses referred to as non-revenue water (NRW). NRW has three components: real losses, apparent losses, and unbilled authorized consumption. Real losses include water lost through transmission and distribution main leaks, leakage and overflows at storage tanks, and leakage on services up to the point of customer metering. Apparent losses consist of unauthorized consumption, customer meter inaccuracies, and systematic data handling errors. Furthermore, unbilled authorized consumption consists of water used for main flushing, firefighting, street cleaning, construction sites, etc.

Per the AWWA, NRW has been proposed as a replacement for unaccounted-for-water (UFW) methodology. UFW is defined as the difference between water produced less water sold with allowance for several exclusions such as main flushing, blowoff use, unauthorized use and any adjustments such as water lost through main and service breaks, etc. Although the Commission has been exploring NRW as a tool both in a pilot at Docket No. M-2008-2062697 and in a proposed rulemaking process at Docket No. M-2020-3019701, the Commission has not finalized any regulations on NRW and is still relying on its established UFW policy statement at 52 Pa. Code § 65.20. VWPA's average annual UFW and NRW levels¹⁸ as reported to the Commission, are shown in Exhibit VII-8.

¹⁸ UFW levels were obtained from VWPA's Schedule 500 of their PUC Annual Report. NRW levels were obtained from the WO-8 data request.

Exhibit VII-8
Veolia Water Pennsylvania, Inc.
Annual Average UFW and NRW Percentage Levels
2019-2023



Note: VWPA's 2023 UFW rate includes the Bethel system's UFW rate due to the change in its PUC reporting data.

Source: VWPA's PUC Annual Reports from 2019-2023 and Data Request WO-8

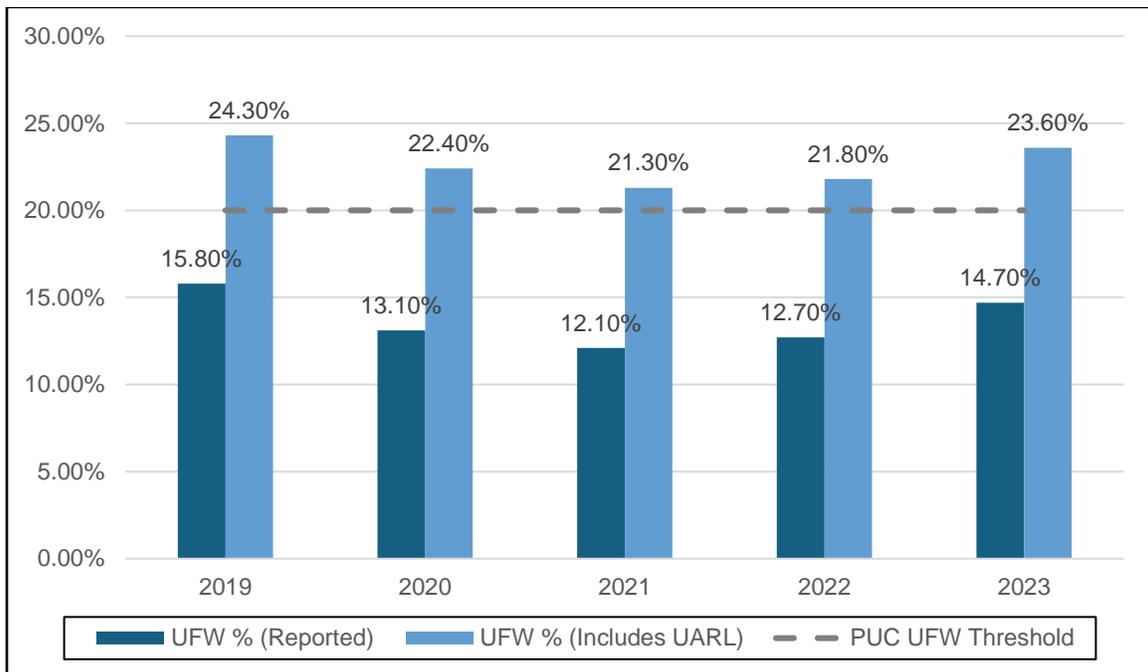
The company points to its continued effort to find and eliminate sources for UFW/NRW as previously discussed in the background for improving UFW/NRW. As shown in Exhibit VII-8, there was a slight decrease in both UFW and NRW since 2019. Schedule 500 of the PUC Annual Report includes a spot to report an unavoidable leakage rate¹⁹ within a section for non-revenue usage allowances. However, VWPA is using this allowance more broadly and excluding AWWA's unavoidable annual real losses (UARL) value for VWPA's system.

UARL is a reference minimum level of leakage, calculated using an empirical formula. Essentially, the UARL is a theoretical value that helps water utilities understand how well its system(s) would perform if the best leak management efforts were implemented. The audit staff asserts that VWPA is using unavoidable leakage to artificially reduce its UFW percentage as detailed in past audit reports (See Docket No.: D-2019-3013234, D-2016-2528481, D-2012-2340572, D-2010-2150875, and D-206MEI021). Therefore, audit staff still contends that excluding UARL from UFW numbers is incorrect and misleading. Exhibit VII-9 shows VWPA's average annual UFW percentages as reported in its PUC Annual Reports compared to VWPA's UFW if

¹⁹ Unavoidable leakage refers to leaks that may be difficult for water utilities to find or are inaccessible to repair (e.g., leak that is underneath a riverbed, etc.).

it did not exclude UARL. Without UARL, the company's average annual UFW levels increases above the Commission's 20% UFW threshold each year.

**Exhibit VII-9
Veolia Water Pennsylvania, Inc.
Unaccounted For Water Comparison
2019-2023**



Source: VWPA's PUC Annual Reports from 2019-2023

From Exhibit VII-9, the annual average UFW value that exceeds the Commission's allowable threshold is roughly 170 million gallons (MG) per year. Using the company's average production cost of \$400/MG²⁰, VWPA could save approximately \$68,000 annually by achieving the Commission's 20% UFW threshold. The audit staff recognizes the challenges associated with leak detection (e.g., sub-surface leaks, leaks emitting minimal audio, etc.) and encourages the company to continue to use its resources (e.g., VWPA's regulated water utility affiliates in other states, industry associations, other regulated water utilities in Pennsylvania, etc.) to reduce its UFW levels.

Although VWPA has decreased both its UFW and NRW levels throughout the audit period, the audit staff believes that VWPA still has not reduced UFW levels within reasonable amounts in accordance with 52 Pa. Code § 65.20 (4). Per the Code, levels above 20% are considered excessive. At this point, the cost for VWPA to meet the 20% threshold may be more than the cost of water lost over 20% UFW. Nevertheless, the audit staff commends the company's innovative and consistent approach to

²⁰ Average production cost was provided by VWPA in Data Request WO-42.

reducing its NRW/UFW and encourages the company to continue making fiscally responsible improvements to its lost water.

The audit staff acknowledges that the Commission is exploring NRW methodology and that adoption of NRW will eliminate any pretense of a UARL exclusion. However, unless the PUC formally addresses its stance on NRW through the rulemaking process, VWPA should not exclude the unavoidable leakage allowance from its UFW. Nonetheless, the audit staff commends the company for its recent endeavors for full disclosure by showing its UFW calculation with and without the UARL exclusion in the PUC Annual Report. At a minimum, the company should continue this practice.

Recommendation VII-4: Reduce UFW below the 20% threshold and report UFW correctly.

VIII. EMERGENCY PREPAREDNESS

Background

On June 11, 2005, Regulations at 52 Pa. Code § 101 (Chapter 101) went into effect that require jurisdictional utilities to develop and maintain written physical security, cyber security, emergency response, and business continuity plans to protect infrastructure within the Commonwealth of Pennsylvania and to ensure safe, continuous, and reliable utility service. A jurisdictional utility is required to maintain these “emergency preparedness” plans and annually file a Self-Certification Form to the Pennsylvania Public Utility Commission (PUC or Commission) documenting compliance with Chapter 101. This form, available on the PUC website, is comprised of 13 questions as shown in Exhibit VIII-1.

Exhibit VIII–1 Pennsylvania Public Utility Commission Public Utility Security Planning and Readiness Self Certification Form

Item No.	Classification	Response (Yes–No–N/A)
1	Does your company have a physical security plan?	
2	Has your physical security plan been reviewed in the last year and updated as needed?	
3	Is your physical security plan tested annually?	
4	Does your company have a cyber security plan?	
5	Has your cyber security plan been reviewed in the last year and updated as needed?	
6	Is your cyber security plan tested annually?	
7	Does your company have an emergency response plan?	
8	Has your emergency response plan been reviewed in the last year and updated as needed?	
9	Is your emergency response plan tested annually?	
10	Does your company have a business continuity plan?	
11	Does your business continuity plan have a section or annex addressing pandemics?	
12	Has your business continuity plan been reviewed in the last year and updated as needed?	
13	Is your business continuity plan tested annually?	

Source: Public Utility Security Planning and Readiness Self-Certification Form, as available on the PUC website at https://www.puc.pa.gov/documents/utility-files/279/Security_Planning_Self-Cert_Checklist2021-F.pdf

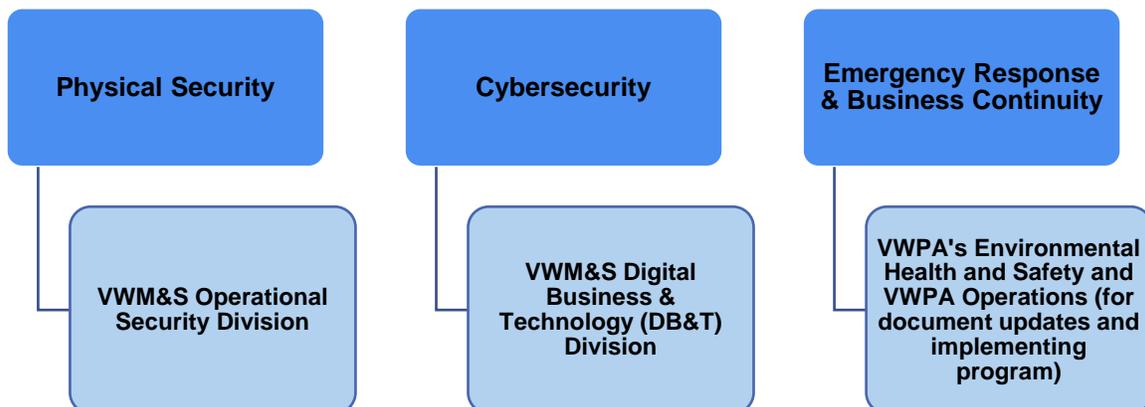
The PUC auditors use a NIST (National Institute of Standards and Technology) Cybersecurity Framework-based audit plan, modified to address the needs and capabilities of the PUC and the Pennsylvania utility companies. Our examination of VWPA’s emergency preparedness included a review of the company’s Physical Security documents, Cyber Security Plan (CSP), Emergency Response Plan (ERP)/Business Continuity Plan (BCP), and the associated security measures. In addition, the audit staff performed inspections at a sample of the VWPA’s facilities, including offices, workshops, service centers, pump stations, and water and wastewater treatment plants. Due to the sensitive nature of the information reviewed, specific

information is not disclosed in the audit report; instead, this information is presented in generalities.

VWPA's physical security and cybersecurity measures are managed at the VWM&S level. The VWM&S's cybersecurity team follows a cybersecurity framework that is a hybrid of the NIST and CISA standards. The Chief Information Security Officer (CISO) oversees the cybersecurity team. The CISO reports directly to the Executive Vice President of Information Systems and Technologies & Chief Digital Officer, who is part of Veolia North America, Inc. (VNA) leadership. The CISO also gives a cybersecurity update to the Veolia Utility Parent, Inc. (VUPI) board on an annual basis. For training, exercises are distributed to employees each month in addition to ad-hoc communications pertaining to cybersecurity. VWM&S also conducts tabletop exercises annually and is looking to conduct small-scale tabletop exercises monthly.

Meanwhile, emergency response and business continuity procedures and policies are created at the VWPA level. Although VWPA has support from affiliates, the company is ultimately responsible for planning for the uniqueness of its operation. Although all VWPA employees have a role in preserving the company's security, Exhibit VIII-2 shows the departments that are primarily responsible for key security components and/or plans.

Exhibit VIII-2
Veolia Water Pennsylvania, Inc.
Company Security Delegation by Department
As of April 16, 2024



Source: Data Request EP-1 and Interview Requests HR-2, EP-2, EP-3, EP-5, and EP-8

The maintenance of the four emergency preparedness plans and/or relevant documents includes annual reviews and testing at least once per year. Often, testing includes federal, state, and local agencies and authorities in tandem with company personnel and is performed via tabletop exercises, simulations, and/or real-life events. Physical and cyber vulnerability tests are routinely conducted to discover potential deficiencies. Opportunities for improvement identified from the testing and reviews are evaluated for implementation and the manuals are updated as needed.

Findings and Conclusions

Our examination of emergency preparedness at VWPA included a review of the physical security documents, CSP, ERP/BCP, vulnerability assessments, and all associated security measures. Based on our review of the company's emergency preparedness programs, VWPA should devote additional effort to improving its security planning and preparedness procedures by addressing the following:

- **Finding VIII-1: Minor security and/or safety deficiencies were identified at VWPA facilities.**
- **Finding VIII-2: VWPA has not performed penetration testing at its facilities nor has a policy solely dedicated to physical security.**
- **Finding VIII-3: VWPA has not developed a cybersecurity maturity model and other cybersecurity safeguards to assess the effectiveness of its cybersecurity programs.**

Discussion

Finding VIII-1: Minor security and/or safety deficiencies were identified at VWPA facilities.

Various minor physical security deficiencies were noted during inspection of VWPA facilities. Most of these deficiencies were due to facility age, oversight, neglect, weather, or general wear and tear. These included concerns such as barbed wire problems, fencing issues, foliage issues, gate misalignments, etc. Security equipment varied from one facility to another, and VWPA would benefit from standardization of equipment based on type of facility and criticality.

Physical security should be continuously addressed, and any deficiencies should be remediated in a timely manner. Deficiencies in a layer of security can render that layer ineffective. Therefore, any deficiency should be repaired or mitigated in the interest of maintaining multiple, functional layers of security throughout VWPA's facilities.

Recommendation VIII-1: Correct minor deficiencies in physical security.

Finding VIII-2: VWPA has not performed physical penetration testing at its facilities nor has a policy solely dedicated to physical security.

During fieldwork interviews with VWPA and VWM&S staff, the PUC auditors confirmed VWPA had not performed physical penetration testing during the audit period. The company indicated that limited staffing, acquisition changes, and other business priorities prevented it from such an activity. Additionally, although there are policies

surrounding weapons and security requirements based upon criticality, as of June 2024, VWM&S does not have standards and/or policies on other physical security features. The audit staff notes that VWPA relies upon VWM&S for its physical security plan but has its own supporting procedures that reduce physical security risks, including its measures for the separation of operational technology and security and a risk matrix that provides guidance on security measures and equipment that should be installed based on facility type. However, a comprehensive policy or additional standards from VWM&S that address all aspects of physical security would provide a foundation for overall security throughout VNA's regulated division.

Utilities are required to secure facilities against emergencies using security equipment and processes. The audit staff commends the effort that VWPA is currently making to maintain physical security measures. However, VWPA could improve its physical security posture by conducting periodic physical penetration testing and would benefit from additional standards and physical security policies developed at the VWM&S level.

Recommendation VIII-2: Conduct periodic penetration testing at company facilities and work with VWM&S to create formal standards for its physical security plan.

Finding VIII-3: VWPA has not developed a cybersecurity maturity model and could strengthen other aspects of its cybersecurity programs.

Cybersecurity is consolidated for the regulated affiliates, like VWPA, at VWM&S or Veolia North America, Inc. (VNA), depending on the service. VWM&S performs the majority of VWPA's cybersecurity functions and has robust programs aimed at ensuring VWPA's IT infrastructure remains safe and secure. However, there are opportunities for improvement that could help improve VWM&S' cybersecurity overall. For instance, as of July 2024, VWM&S had not adopted a cybersecurity maturity model. Although VWM&S conducted exercises and assessments to review its efforts, a cybersecurity maturity model would help evaluate and document overall cybersecurity posture.

In addition, VWM&S has begun conducting self-assessments for its affiliates and will complete one for VWPA in the future. Meanwhile, the company has relied upon other internal and external processes to identify gaps in cybersecurity. Nonetheless, VWM&S should complete self-assessments of VWPA regularly. Furthermore, during these processes, VWM&S and VNA should spend additional time on the services provided by both groups and their nexus to focus on critical assets. In this fashion, cybersecurity must be continuously reviewed and improved to ensure infrastructure remains secure and functional. Although expert review of a company's cybersecurity program is beneficial, internal reviews like self-assessments and maturity models are low-cost tools to routinely drive cybersecurity improvement.

Recommendation VIII-3: Develop and maintain a cybersecurity maturity model for VWPA and implement other cybersecurity improvements.

IX. PURCHASING AND MATERIALS MANAGEMENT

Background

Veolia Water Pennsylvania, Inc.'s (VWPA or company) Finance Director Mid-Atlantic (Finance Director) and Senior Operations Manager oversee VWPA's materials management function, with shared responsibilities across the Finance and Operations Departments. The Finance Department handles reporting and tracking of materials, whereas the Operations Department is responsible for ordering and maintaining physical inventory. The company maintains inventory at five locations throughout its service territory: two locations in the Harrisburg Region and one each in the Mechanicsburg, Bloomsburg, and Dallas Regions.

An Accounts Payable Specialist II reporting to the Finance Director tracks physical inventories, processes material acquisitions and returns, and generates monthly reports in PeopleSoft, the company's inventory management system (IMS). The Transmission & Distribution Superintendent is responsible for managing and ordering inventory at the warehouses, evaluating min/max values to determine reorder points, determining emergency stock, and conducting cycle counts.

The Operations Department uses materials from inventory as needed for its field work. A paper material stock receipt (MSR) is created by someone from operations that reflects what inventory was used after work is completed. The Finance Department uses the MSR to update the IMS. However, this process means that VWPA's inventory management system is not updated in real-time. See Finding and Conclusion No. IX-1 for additional information.

VWPA relies upon the Supply Chain Management (SCM) department within Veolia Water Management & Services (VWM&S or Service Company) for procurement of goods and services²¹. VWM&S' SCM department, led by the Director SCM, provides inventory services to some VNA regulated water and wastewater systems, including VWPA. This department handles oversight of procurement processes, sourcing materials, vendor selection, and negotiating purchasing contracts.

During the audit period, VWPA increased inventory turnover considerably compared to prior audits, reaching annual turnover of 5.45 in 2019 and nearly 3.0 in 2020 and 2021. Turnover decreased to around 2.0 in 2022 and 2023. Management pointed to two factors for turnover decreasing into 2023: first, the supply chain shortages resulting from the aftermath of the COVID-19 pandemic caused management to stock-up when materials were made available. Second, at the direction of Veolia Corporate, the company began purchasing a substantial amount of pipe for future capital projects. These two factors increased inventory levels and resulted in reducing turnover to a modest but respectable 2.0. Exhibit IX-1 below details inventory levels and issues behind VWPA's turnover.

²¹ See Chapter V-Cost Allocations and Affiliated Interests for more information about the shared services provided by VWM&S to VWPA.

**Exhibit IX-1
Veolia Water Pennsylvania, Inc.
Inventory Turnover
2019 – 2023**

	2019	2020	2021	2022	2023
Inventory Issues	\$4,289,160	\$1,105,264	\$1,383,197	\$1,312,244	\$3,624,511
Avg. Annual Inventory	\$786,652	\$376,074	\$464,969	\$691,838	\$1,805,205
Turnover	5.45	2.94	2.97	1.90	2.01

Source: Data Request MM-7

Findings and Conclusions

Our examination of the Materials Management function included a review of assigned responsibilities, policies and procedures, information systems, reporting capabilities, inventory control, inventory levels, inventory turnover, and warehouse operations. Based on our review, VWPA should devote additional effort to improve the efficiency and/or effectiveness of its materials management function by addressing the following:

- **Finding IX-1: VWPA’s materials management core functions are overly manual.**
- **Finding IX-2: VWPA has not established a process for routine evaluation of its inactive inventory for obsolescence.**

Discussion

Finding IX-1: VWPA’s materials management core functions are overly manual.

As briefly mentioned in the background section, elements of the materials management function remain manual, reactive, inefficient, and redundant. For example, one of the advantages of maintaining min/max inventory levels for some items is that it allows for the automation of the reorder process. Once inventory levels fall below a specified threshold, process automation would streamline the reorder. However, in VWPA’s case the min/max levels and on-hand inventory are exported to an Excel spreadsheet and the T&D Superintendent must determine reorder quantities item-by-item.

Because VWPA does not have personnel dedicated to materials management, VWPA’s inventory management processes tend to be reactive, often creating discrepancies between inventory on the shelves and quantities found in the IMS. Further, the lack of systemic efficiency increases the potential for employees to skip steps in the inventory process. For example, rather than submit an MSR for inventory

at the beginning of the project and a second MSR for the return of unused materials after completion, employees instead take inventory at the beginning of a project and only submit a MSR after the project is completed. This process creates lag between when materials are removed from inventory and when it is reflected in the IMS, thereby degrading the accuracy of IMS reporting. Manual processes are error prone and inefficient, thus VWPA should explore ways to eliminate the redundancies within its materials management processes.

VWPA should consider integrating its IMS with the systems used by the Operations Department for work order management. Integrating these systems could allow Operations personnel to more quickly and accurately record materials used during a project or task. Another way to improve efficiency would be to start using additional functionality within the IMS such as reorder points. Nonetheless, these types of opportunities would help VWPA to improve automation, efficiencies, and potentially reduce errors.

Recommendation IX-1: Reduce or eliminate manual activities used in current materials management processes.

Finding IX-2: VWPA has not established a process for routine evaluation of its inactive inventory for obsolescence.

As of February 2024, VWPA held inventories valued at \$2,585,364. The PUC auditors’ analysis of VWPA’s inventory activity revealed \$267,766 or 10.4% of on-hand inventory was inactive inventory (items with no issues for the previous twelve months). Exhibit IX-2 below shows the value of inventory with no issues for the past 12, 24, and 36 months.

**Exhibit IX-2
Veolia Water Pennsylvania, Inc.
Inactive Inventory
As of February 2024**

Inactive Period	Value	Percent of Total Inventory
12 Months+	\$267,766	10.4%
24 Months+	\$206,855	8.0%
36 Months+	\$130,711	5.1%

Source: Data Request MM-8

The company does not formally conduct any type of inventory analysis to identify obsolete inventories. According to management, the last two reviews of inactive materials occurred 5 and 12 years ago. VWPA discovered degraded materials in need

of replacement during its most recent review. Ideally, obsolescence should be reviewed routinely, at least every three years and run concurrently with an emergency stock review. In addition to obsolescence, applicable materials should be evaluated periodically for degradation.

Identifying and defining obsolete inventory from within inactive inventory should be a continuous and dynamic process, where parameters for obsolescence are reevaluated depending upon the composition of infrastructure, availability of materials, and other constraints. Lack of continuous or periodic review of inactive materials prevents opportunities to reduce inventory levels and associated carrying costs, increase usable warehouse space, and identify opportunities for efficiency gains. Furthermore, failure to formally define obsolescence and establish procedures for identification and elimination of obsolete materials increases the risk of inconsistent material handling and for retaining unusable, inactive, or damaged materials due to lack of guidance. Therefore, VWPA would benefit from establishing a routine process and documenting its procedures to address inactive and obsolete materials more effectively.

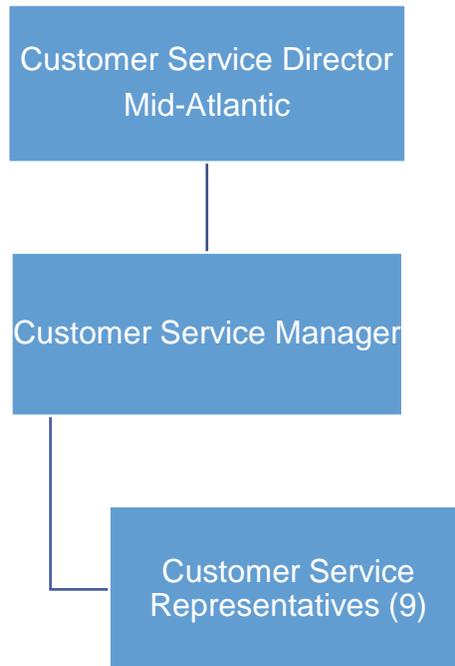
Recommendation IX-2: Develop and document a process to periodically review inactive materials for obsolescence at least every three years.

X. CUSTOMER SERVICE

Background

Veolia Water Pennsylvania, Inc. (VWPA or company) provides water service to approximately 68,000 customers throughout Pennsylvania as of December 31, 2023. VWPA Customer Service (CS) handles customer inquiries, complaints, billing, payment processing, and work order management. The department is comprised of the Director CS Mid-Atlantic (CS Director), CS Manager Pennsylvania (CS Manager), and nine Customer Service Representatives (CSRs). The CS Director has overall responsibility for VWPA's CS function and handles oversight and day-to-day responsibilities for Veolia Water Delaware (VWDE) CS operations. Conversely, the CS Manager handles day-to-day CS duties for VWPA, including oversight of all CSRs. VWPA's CS department is illustrated in Exhibit X-1.

Exhibit X-1
Veolia Water Pennsylvania, Inc.
Customer Service Department Organization Chart
As of April 16, 2024



Source: Data Request EM-1

VWPA's CS department operates a call center at the VWPA Customer Service Center in Hummelstown, PA. The CS department shares this building with the Field Technicians, Meter Readers²², and transmission & distribution (T&D) personnel for the

²² The Meter Department reports to and is overseen by the VWPA T&D Superintendent.

Harrisburg region. The call center’s normal business hours are from 8:00 a.m. to 4:30 p.m. Monday through Friday, except holidays. CS functions are supported by a customer information system (CIS), that includes modules for customer account management, billing, and field service orders.

VWPA’s CSRs handle all customer inquiries (i.e., telephone, web portal, or email), verify customer bills, create, and handle field service orders, and process customer payments. CSRs are cross trained to ensure all staff can perform all duties in case of a vacation, extended illness, or temporary vacancy. Furthermore, VWPA’s CSRs receive training on Pennsylvania and Delaware regulations, because the CSRs may also support VWDE as needs arise.

As shown in Exhibit X-2, VWPA’s CS call handling performance improved during the audit period. Since 2019, VWPA’s CS improved and maintained consistently strong call handling performance as measured by the call abandonment rate²³, average speed of answer²⁴, and service level²⁵. VWPA’s CS goals remained consistent for 2019-2023.

Exhibit X-2
Veolia Water Pennsylvania, Inc.
Call Handling Metrics
2019 – 2023

Measurement	Goal	2019	2020	2021	2022	2023
Abandoned Rate	< 3%	2.46%	1.29%	1.55%	1.67%	1.69%
Avg Speed of Answer	30 sec	33	17	24	24	22
Service Level %	80%	69.10%	92.34%	89.29%	88.15%	89.71%

Source: Data Request CS-6

Customers can remit payment by mail, autopay (i.e., customer bank account direct debit), over the phone, or via the company’s website. Additionally, in-person payments can be made at local grocers with a searchable list of participating locations available at mywater.veolia.us/my-account/find-payment-locations.

Customer complaints are managed and resolved by the CSRs and CS Manager with guidance for proper procedure and workflow included in the CS Manual. Complaints made directly to the VWPA CS department are initially handled by CSRs. Calls are elevated to the CS Director or Manager when the CSR is unable to reach resolution with the customer. In addition, the company tracks and classifies all incoming calls and complaints via the CIS.

²³ The number of calls to a company’s call center that were abandoned, divided by the total number of calls the company received at its call center.

²⁴ Average number of seconds to answer a call with the CSR ready to render assistance and accept information necessary to process the call.

²⁵ The number of calls answered within 30 seconds divided by the total number of calls the company received at its call center.

Findings and Conclusions

Our examination of the Customer Services function included a review of the company's policies and procedures, staffing levels, management and reporting systems, performance levels, customer outreach efforts and programs, call center statistics, etc. Based on our review, the company should devote additional effort to improving the efficiency and/or effectiveness of its customer service function by addressing the following:

- **Finding X-1: VWPA does not routinely conduct customer satisfaction surveys.**
- **Finding X-2: VWPA's agreements with municipalities related to the Water Services Act are undocumented and have not been filed with the Commission.**

Discussion

Finding X-1: VWPA does not routinely conduct customer satisfaction surveys.

Customer satisfaction surveys are an opportunity to engage customers and acquire valuable feedback. Surveys can be used to gain insights into the customer experience, specific activities, tools, or technologies (e.g., user-friendliness of website, alerts and announcements, or interactions with field personnel). Surveys can also be tailored to certain customer demographics (e.g., over/under a specified age, commercial customers, etc.) or to specific conditions (e.g., use of a specific web feature or service, late payment, etc.).

The company indicated it had not conducted a customer satisfaction survey since the last PUC Focused Management and Operations Audit in 2016. Failure to interact with customers and gauge feedback regularly can lead to diminished awareness of customer needs and concerns. At a minimum, a broadly designed customer satisfaction survey should be conducted once every three years.

Recommendation X-1: Implement routine customer satisfaction surveys to ensure customer expectations are met and to identify opportunities for improvement.

Finding X-2: VWPA's agreements with municipalities related to the Water Services Act are undocumented and are not filed with the Commission.

VWPA performs several tasks on behalf of 20 local municipalities within its service territory as part of its routine operations. These activities include providing consumption reports (i.e., water usage) to the local municipalities, who then bill residents for sewer service. In addition, VWPA occasionally performs service termination on behalf of these municipalities for nonpayment of customer sewer bills. The services VWPA provides to the municipalities are needed to bill and manage

municipal wastewater operations for those municipalities. Although no formal contract terms exist between VWPA and any of the municipalities, the company is compensated for their services to the municipalities.

Though these activities represent a small portion of the company's activities, 66 Pa. C.S. § 507 requires all contracts and agreements between a public utility and a municipal corporation to be filed with the Commission at least 30 days prior to its effective date. Formal documentation is necessary to ensure activities align with PA regulations.

Recommendation X-2: Execute formal contracts for all municipal agreements concerning the sharing of customer usage data, and all services performed on behalf of the municipality, including consumption reporting and termination services and file with the PUC per 66 Pa. C.S. § 507.

XI. HUMAN RESOURCES AND DIVERSITY

Background

Human Resources

As discussed in Chapter III-Executive Management and Organizational Structure, VWPA is supported through a matrix structure for its HR functions where some HR services are provided by Veolia Water Management & Services (Paramus), Inc. (VWM&S).²⁶ Centralized HR services encompass administration of payroll and benefits, including employee group insurance, pension plans, long and short-term disability, and oversight of the compensation program, labor relations, etc.

VWPA-specific HR functions are provided by VWPA's HR Business Partner, who reports directly to VWM&S' VP-HR and has dotted line reporting to the RP, Mid-Atlantic concerning VWPA activities. VWPA HR-related activities include support for employee relations, employee development, recruitment, succession planning, etc. VWPA's HR Business Partner also provides a direct line of communication with VWM&S centralized HR services for VWPA specific matters. In addition, VWM&S' HRIS serves as a hub for employees to self-serve and access a variety of HR resources, including pay and benefit information, talent and career development resources, employee manual, etc. The HRIS includes access to the user interface for payroll and time entry. VWPA's payroll system is discussed in more detail in Finding and Conclusion No. XI-1.

As discussed previously in Chapter III-Executive Management and Organizational Structure, VWPA's environmental, health, and safety (EHS) activities and training promote the company's safety culture. VWPA's safety committee includes one employee from each department who volunteers to discuss best practices, identify needs, and drive improvements. The safety committee meets quarterly; however, employees may submit leading indicators²⁷ to VWPA management that help prevent injuries by proactively identifying potential issues.

Safety is also supported by VWPA's EHS training program that is aligned with the specific duties of each VWPA employee's responsibilities. Timely completion of required EHS training and participation in EHS sponsored activities are key requirements for bonus compensation eligibility for both union and nonunion employees. As illustrated in Exhibit XI-1, VWPA's safety performance exceeded U.S. Bureau of Labor Statistics (BLS) published rates²⁸ between 2019-2022.

²⁶ See Chapter V-Cost Allocations and Affiliated Interests for more information related to centralized services.

²⁷ Leading indicators can include hazard recognition, near misses, safety improvements, positive recognition, safety coaching, etc.

²⁸ BLS updates on Employer Related Workplace Injuries and Illnesses are released annually in November for the previous calendar year.

Exhibit XI-1
Veolia Water Pennsylvania, Inc.
Safety Performance vs. BLS Rates
2019-2023

Total Recordable Cases	2019	2020	2021	2022	2023
VWPA Actual	1	0	0	1	0
BLS Benchmark*	5.3	2.1	2.4	2.0	NA
DART	2019	2020	2021	2022	2023
VWPA Actual	0	0	0	0	0
BLS Benchmark*	3.1	1.4	1.7	1.5	NA

NA – Data not available (US BLS update scheduled for November 2024)
 * Average (mean) incidence rate for Water, Sewage, and other systems
 Source: Data Request HR-8

Diversity

The PUC has encouraged utilities to proactively improve diversity in their workforce and purchasing efforts for more than two decades. In March of 1992, the PUC issued a Secretarial letter directing all jurisdictional utilities affected by Section 516 of the Public Utility Code (i.e., utilities whose plant-in-service exceeds \$10 million) to file quarterly diversity status reports with the PUC. In May of 1994, the PUC issued an Order directing Section 516 utilities to file diversity status reports semi-annually rather than quarterly, to submit EEO plans annually, and to file specified diversity procurement data. In February 1995, the PUC adopted Chapter 69 regulations that encouraged utilities to include diversity efforts as a part of their business strategy. Later, in March 1997, the PUC changed its diversity filing requirements changed from semi-annual to annual. After reviewing its diversity requirements, the Commission issued its final rulemaking order at Docket No. L-2020-3017284 at its April 14, 2022 Public Meeting.

VWPA participates in corporate-wide culture, diversity, equity, and inclusion programs and initiatives as part of Veolia North America (VNA). Although included in the program, VWPA is not a specific focus of the culture, diversity, equity, and inclusion program by itself. Instead, VWM&S is responsible for coordinating and administering these programs across VNA and all subsidiaries, including VWPA. Thus, VWM&S structures activities and evaluates effectiveness through a corporate-wide program that includes employee recruitment, development, and retention efforts and procurement initiative. VWPA routinely complies with 52 Pa. Code § 69.809 by filing annual reports on diversity with the PUC.

Findings and Conclusions

Our examination of the Human Resource and Diversity function included a review of the HRIS, compensation, safety programs, PUC diversity filings, hiring and recruiting, and employee training. Based upon our review, VWPA should devote

additional effort to improving the efficiency and/or effectiveness of its human resource and diversity function by addressing the following:

- **Finding XI-1: VWPA's legacy payroll system is inefficient.**

Discussion

Finding XI-1: VWPA's legacy payroll system is inefficient.

As discussed in Chapter II-Background, VWPA was acquired by Veolia Environnement S.A. (Veolia Group) in 2022. As a result of the recent change in ownership, VWM&S, VWPA, and their affiliates are transitioning all information systems to common platforms, including the legacy payroll system that was in use by VWPA during audit fieldwork. As an example of its limitations, due to differences in the payroll systems between VWPA and VWM&S, VWPA's annual compensation adjustments must be converted manually to align its employees' salary bands with the legacy system.

Manual processes are inefficient and increase the risk of error. The legacy payroll system is slated to be replaced by the Veolia Group payroll system in early 2026. Once replaced, the annual compensation adjustment process will occur within the new payroll system and eliminate the manual conversion required by the legacy system.

Recommendation XI-1: Streamline the annual compensation adjustment process by transitioning VWPA to a common payroll platform.

XII. ACKNOWLEDGEMENTS

We wish to express our appreciation for the cooperation and assistance extended during this Management and Operations Audit by the officers and staff of Veolia Water Pennsylvania, Inc.

This audit was conducted by Jennie Banzhof, Krystle Daugherty, Barry Keener, Evan Baker, and Abisola Oyebola of the Management Audit staff of the Bureau of Audits.

XIII. APPENDICES

Appendix A Financial and Operating Data Statistics

**Veolia Water Pennsylvania (Formerly Suez Water Pennsylvania)
Financial and Operating Data and Statistics**

Appendix A
Page 1 of 2

Operating Statistics	2019	2020	2021	2022	2023	Compound Growth
Gross Utility Plant	410,914,524	434,292,771	456,317,469	461,015,097	507,268,171	5.4%
Depreciation & Amortization	82,455,891	91,311,952	98,031,572	83,703,249	90,769,659	2.4%
Utility Plant Adjustments	1,643,364	1,585,620	1,527,876	1,470,132	1,412,388	-3.7%
Net Utility Plant	330,101,997	344,566,439	359,813,773	378,781,980	417,910,900	6.1%
Total Water Sales & Other Revenue						
Unmetered Water Revenue						
Residential	-	-	-	-	-	NM
Metered Water Revenue						
Residential	30,195,925	32,540,825	32,374,003	32,347,054	33,482,401	2.6%
Commerical	13,086,906	12,742,989	13,554,451	13,966,930	14,054,363	1.8%
Industrial	1,515,189	1,385,929	1,489,394	1,516,126	1,286,528	-4.0%
Public	1,948,473	1,690,090	1,562,135	1,539,640	1,619,514	-4.5%
Other					(97)	NM
Public Fire Protection	1,004,050	1,029,513	1,030,188	1,040,751	1,131,815	3.0%
Private Fire Protection	1,566,804	1,609,729	1,647,789	1,689,408	1,723,491	2.4%
Other Sales to Public						
Total Water Sales	49,317,347	50,999,075	51,657,960	52,099,909	53,298,015	2.0%
Other Water Revenues	886,004	474,536	775,652	2,704,932	4,722,921	51.9%
Total Water Sales & Other Revenues	50,203,351	51,473,611	52,433,612	54,804,841	58,020,936	3.7%
Gallons Sold (in thousands)						
Unmetered Sales						
Residential	-	-	-	-	-	NM
Commercial	72,870	28,245	24,570	14,176	24,751	-23.7%
Metered Sales						
Residential	2,323,185	2,514,946	2,469,598	2,454,027	2,618,538	3.0%
Commerical	1,488,804	1,394,762	1,501,499	1,557,915	1,572,357	1.4%
Industrial	236,295	217,122	233,005	234,616	203,428	-3.7%
Public	258,163	214,371	194,596	190,476	202,418	-5.9%
Private Fire Protection	-	-	-	-	-	NM
Sales for Resale	-	-	-	-	226,643	NM
Total Water Sales	4,379,317	4,369,446	4,423,268	4,451,210	4,848,135	2.6%
Total Water Delivered	6,343,960,000	6,047,500,000	6,100,457,000	6,181,561,000	6,640,463,000	1.1%
Total Sales	4,358,450,000	4,373,986,800	4,424,348,800	4,451,955,100	4,843,898,200	2.7%
Non-Revenue Usage Allowance	981,989,000	883,926,000	939,325,000	942,354,000	820,107,000	-4.4%
Unaccounted for Water (With UARL Subtracted)	1,003,521,000	789,587,200	736,783,200	787,251,900	976,457,800	-0.7%
Unaccounted for Water (Without UARL Subtracted)	-	-	-	1,350,435,900	1,564,343,800	NM
Percentage of Unaccounted for Water (With UARL Subtracted)	15.8%	13.1%	12.1%	12.7%	14.7%	-1.8%
Percentage of Unaccounted for Water (Without UARL Subtracted)	-	-	-	21.8%	23.6%	NM
Customers (Average)						
Unmetered Sales						
Residential	-	-	-	-	-	NM
Commerical	-	-	-	-	-	NM
Public Fire	33	33	33	33	33	0.0%
Private Fire	985	967	989	962	984	0.0%
Metered Sales						
Residential	55,579	57,440	58,473	59,263	62,100	2.8%
Commerical	4,859	4,880	4,976	5,031	5,108	1.3%
Industrial	52	54	55	54	53	0.5%
Public	246	231	228	224	225	-2.2%
Private Fire	-	-	-	-	-	NM
Public Fire	-	-	-	-	-	NM
Sales for Resale	-	-	-	-	-	NM
Total Customers	61,754	63,605	64,754	65,567	68,503	2.6%
Employees (Average)	94	96	97	99	105	1.5%

**Pennsylvania American Water Company
Financial and Operating Data and Statistics**

<u>Operating Statistics</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Compound Growth</u>
Salaries & Wages	5,089,772	4,873,220	5,200,123	5,451,380	5,908,081	3.8%
Employee Pensions & Benefits	2,207,051	1,742,474	1,839,481	1,633,161	1,803,184	-4.9%
Purchased Water	430,724	341,800	152,084	257,235	1,918,412	45.3%
Purchased Power	1,258,831	1,228,430	1,318,016	1,502,556	2,257,190	15.7%
Fuel for Power Production	159,721	135,323	156,926	169,782	224,964	8.9%
Chemicals	594,924	616,406	537,215	922,048	1,164,656	18.3%
Materials & Supplies	301,215	294,107	319,412	337,516	452,588	10.7%
Contractual Services	5,345,869	5,662,675	6,213,423	6,063,901	6,622,497	5.5%
Rent & Transportation Expenses	616,731	622,817	542,878	665,714	730,080	4.3%
Insurance	31,294	265,078	457,327	80,957	303,455	76.5%
Advertising Expenses	-	-	-	-	-	-100.0%
Regulatory Expenses	152,408	164,357	210,193	88,282	77,763	-35.3%
Bad Debt Expenses	444,508	1,201,478	117,045	(383,885)	338,622	-6.6%
Miscellaneous Expenses	(659,773)	(123,003)	(28,646)	171,632	93,138	NM
Total Water Operation & Maintenance Expenses	15,973,275	17,025,162	17,035,477	16,960,279	21,894,630	8.2%

Source: PUC Annual Reports



Pennsylvania Public Utility Commission

400 North Street
Harrisburg, PA 17120
1-800-692-7380
www.puc.pa.gov

